

Navigating Uncharted Waters

**City of Chula Vista
November 17, 2008**

SULLIVAN GROUP REAL ESTATE ADVISORS

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AGENDA

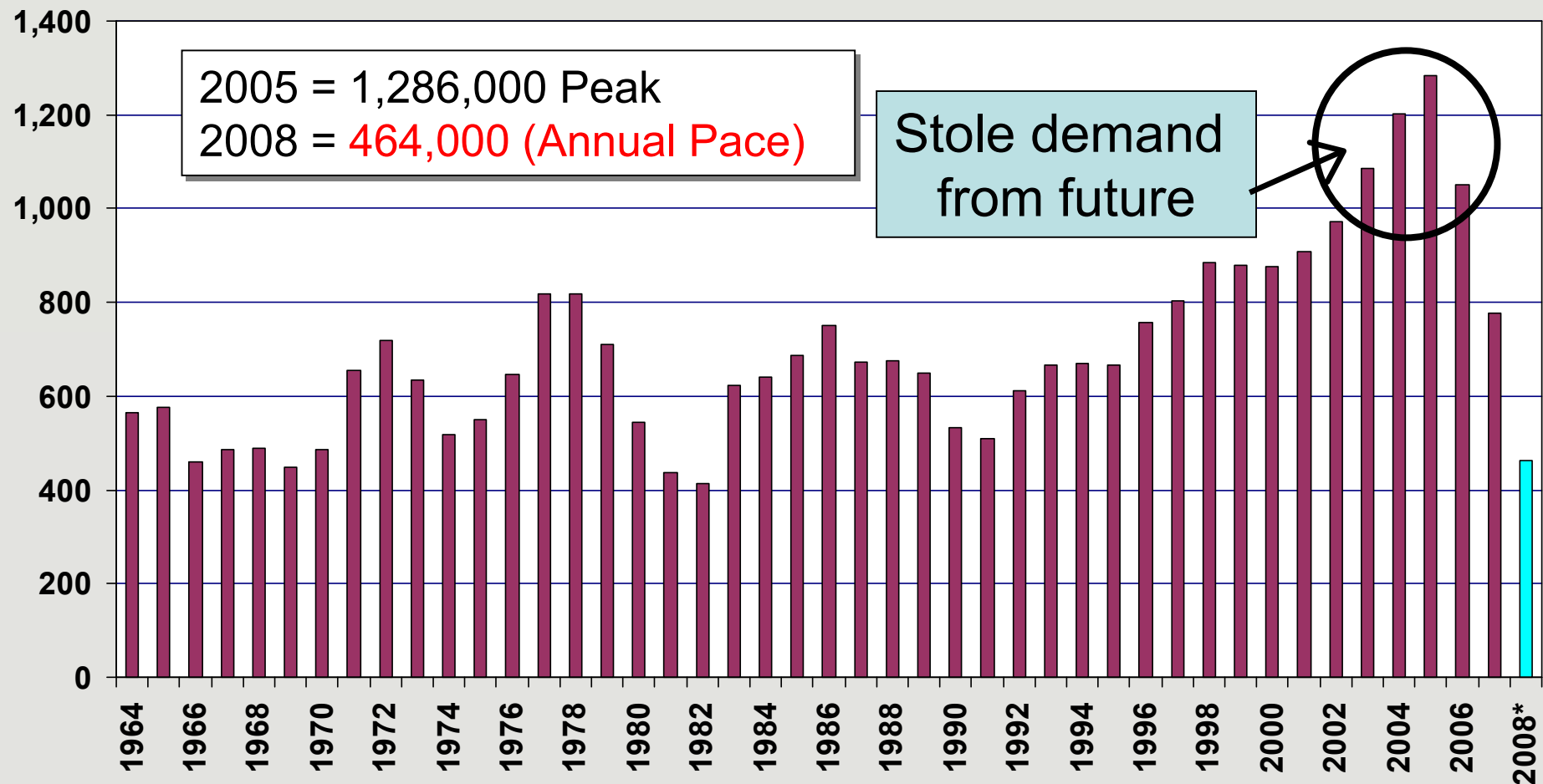
- I. The National Housing Market
- II. The San Diego Housing Market
- III. South County Housing Market
- IV. Conclusions



I. THE NATIONAL HOUSING MARKET

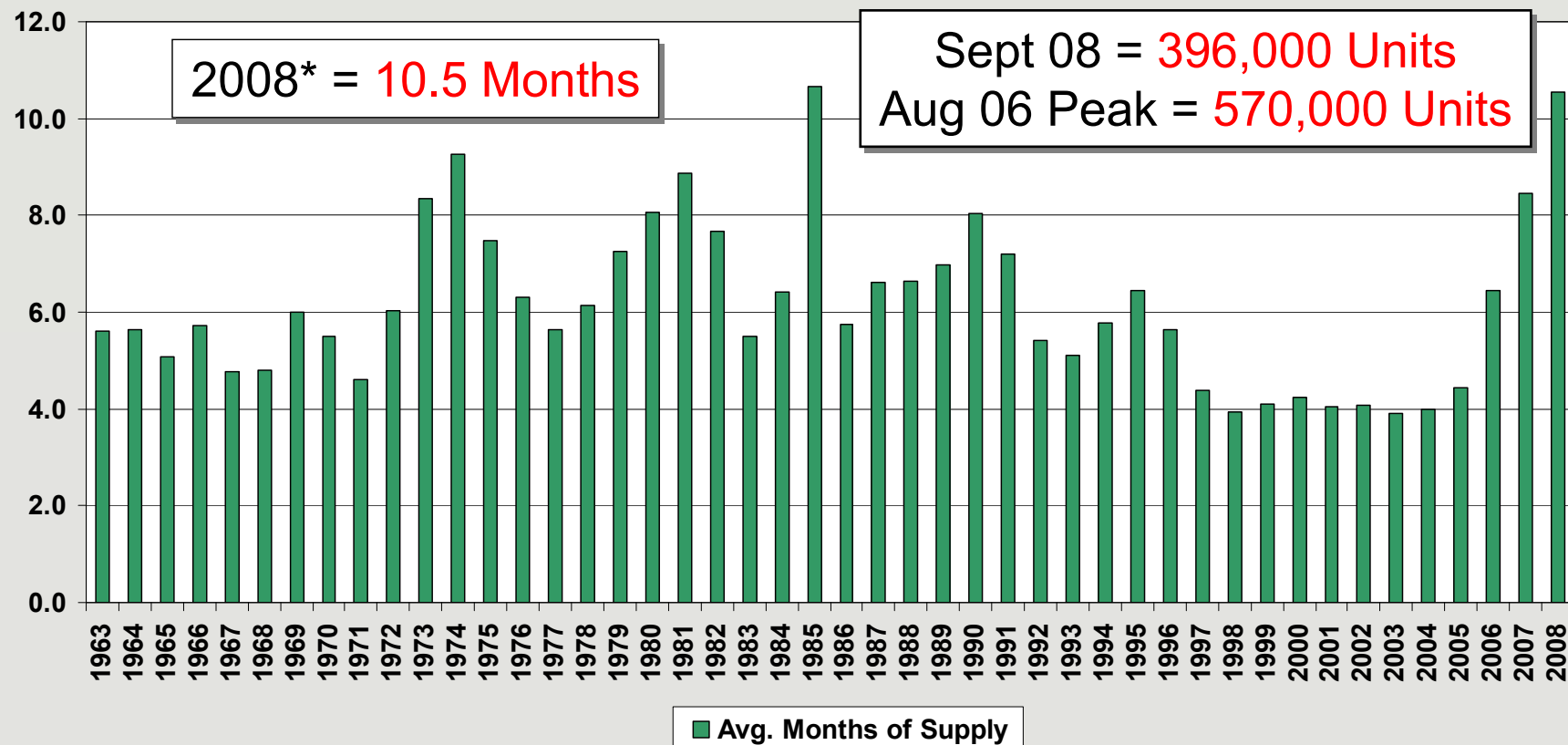


New Home Sales Continue to Fall: Back to 1981 Pace



Source: Census Bureau, released October 27, 2008; Sullivan Group

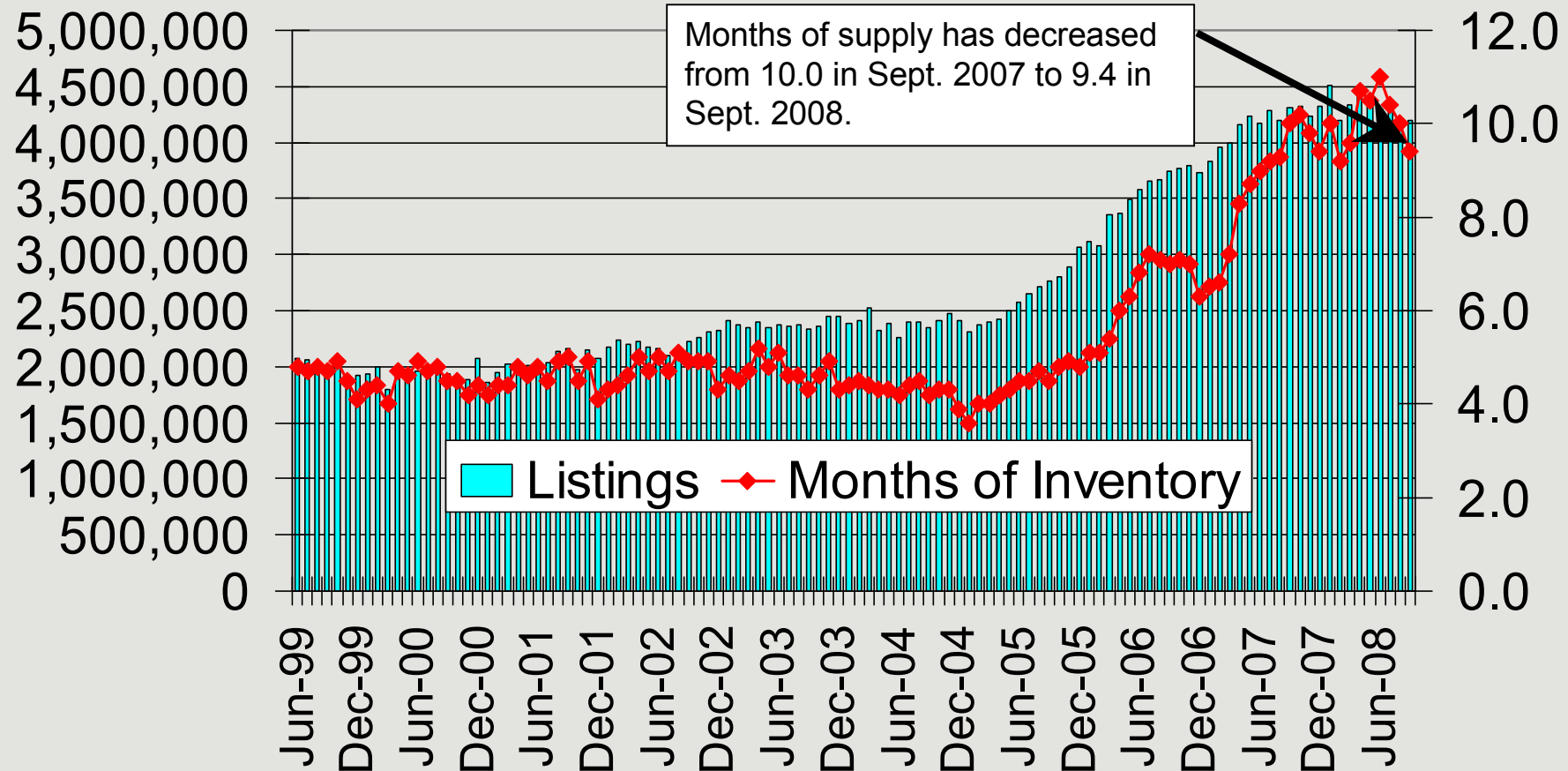
New Home Supply “Overhang”: Absolute Numbers Are Declining



2008* data is average January-September

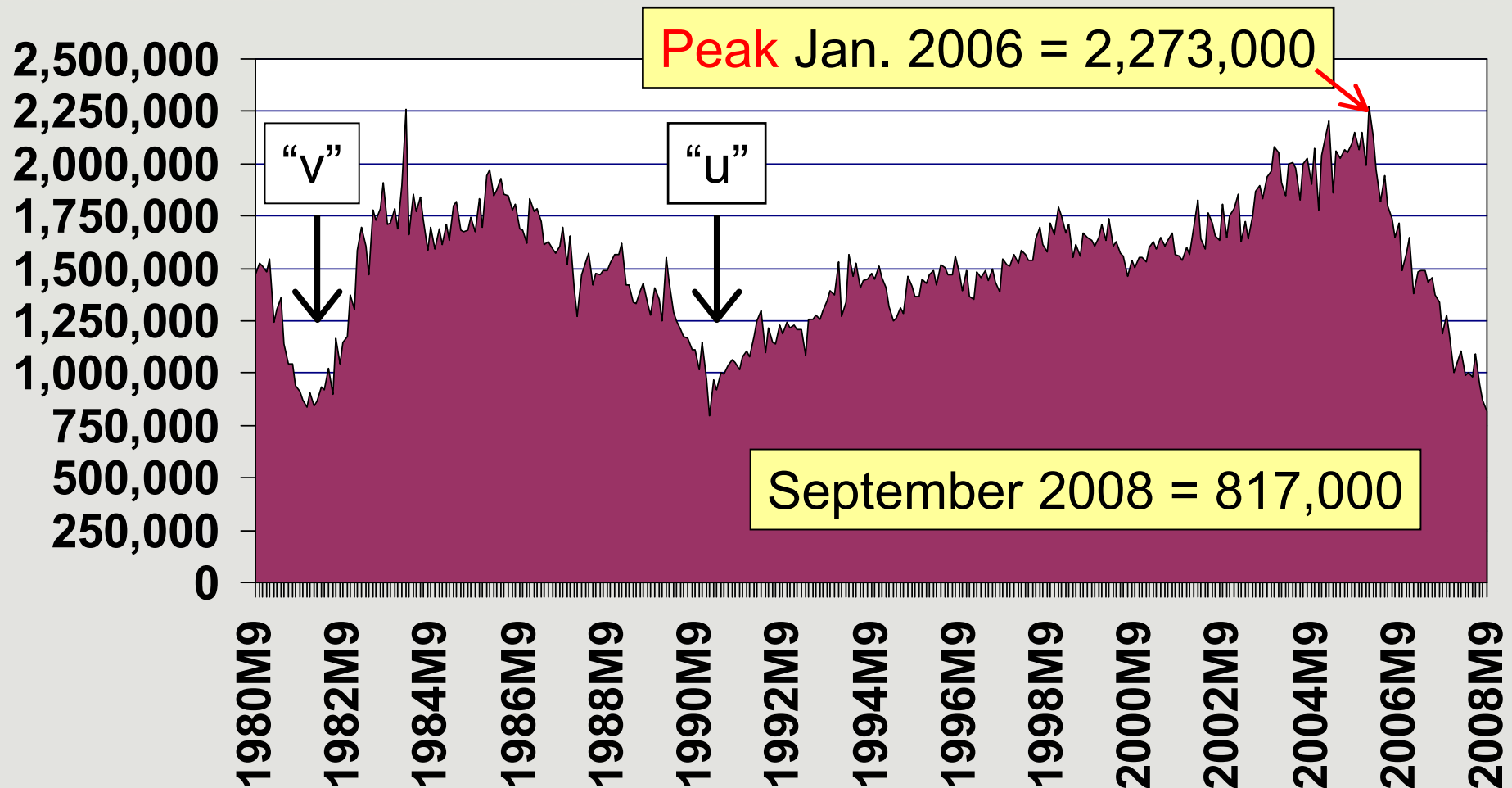
Source: Census Bureau; Sullivan Group

Resale Supply Has Levelled Recently. Can We Work Off More Supply in 2009?



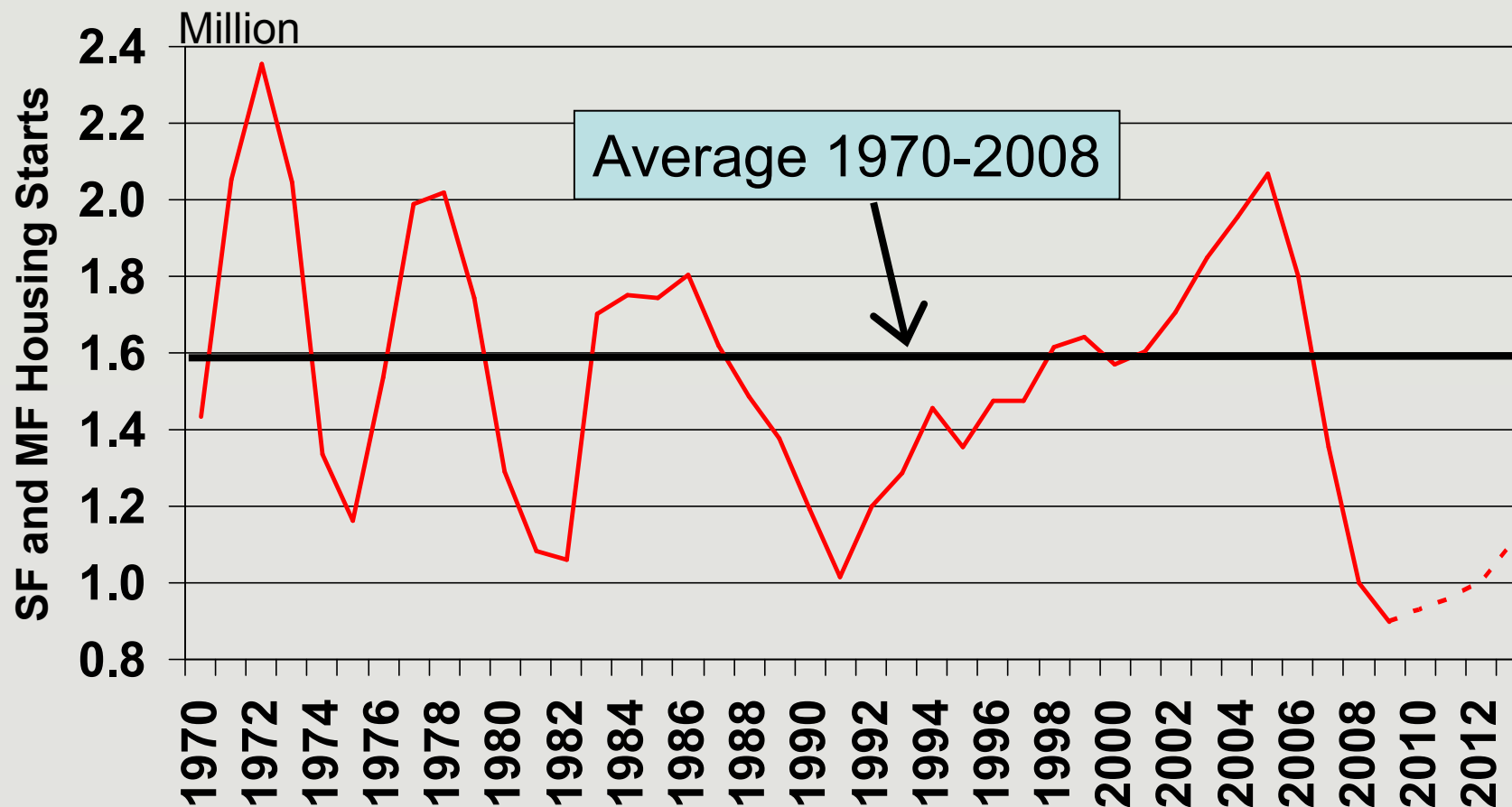
Source: National Assn. of Realtors; Sullivan Group

Starts at 1991 and 1981 Levels



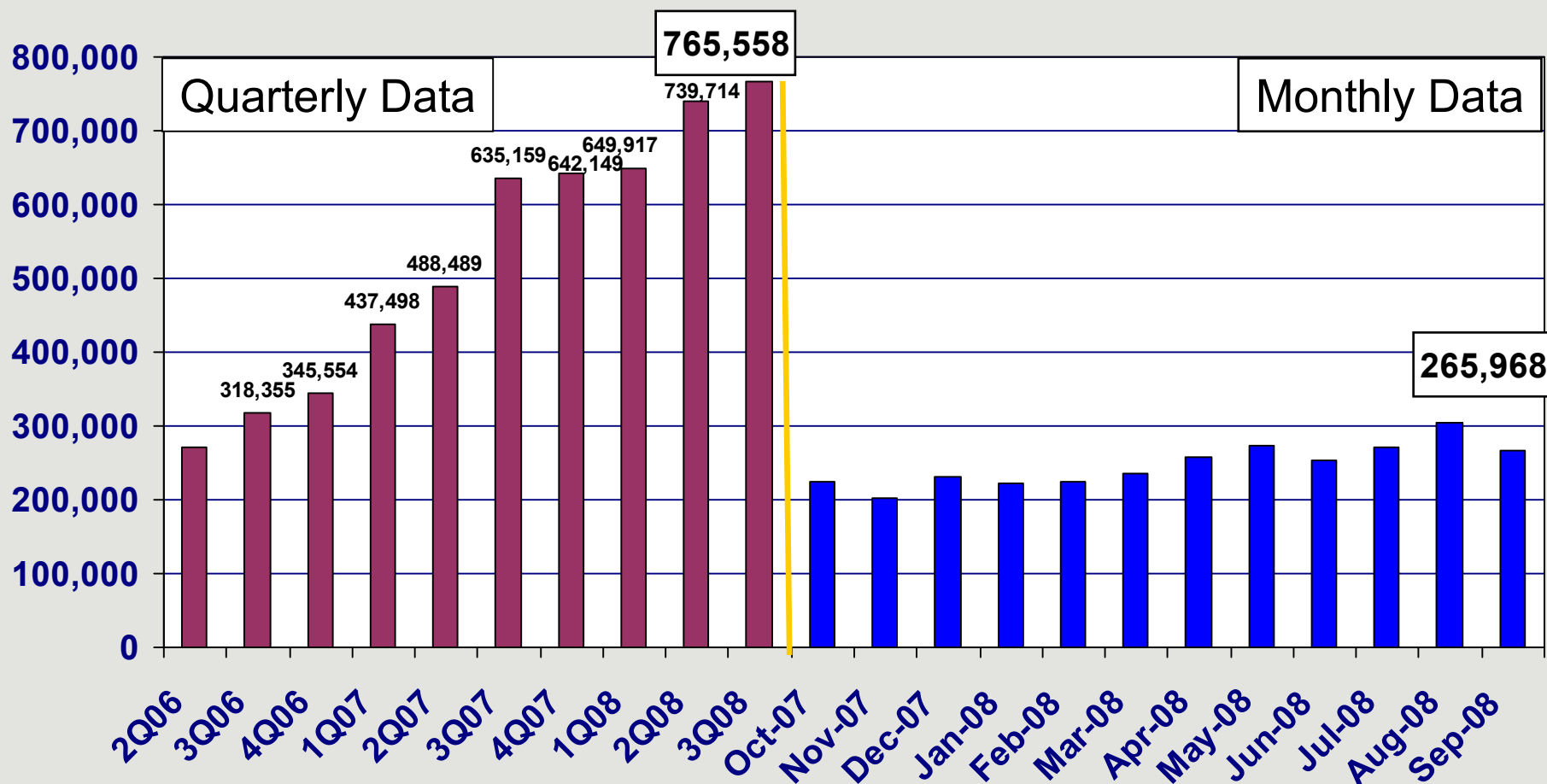
Source: U.S. Census Bureau, released October 17; Sullivan Group

U.S. Housing Rebound: Can It Start After 2009?



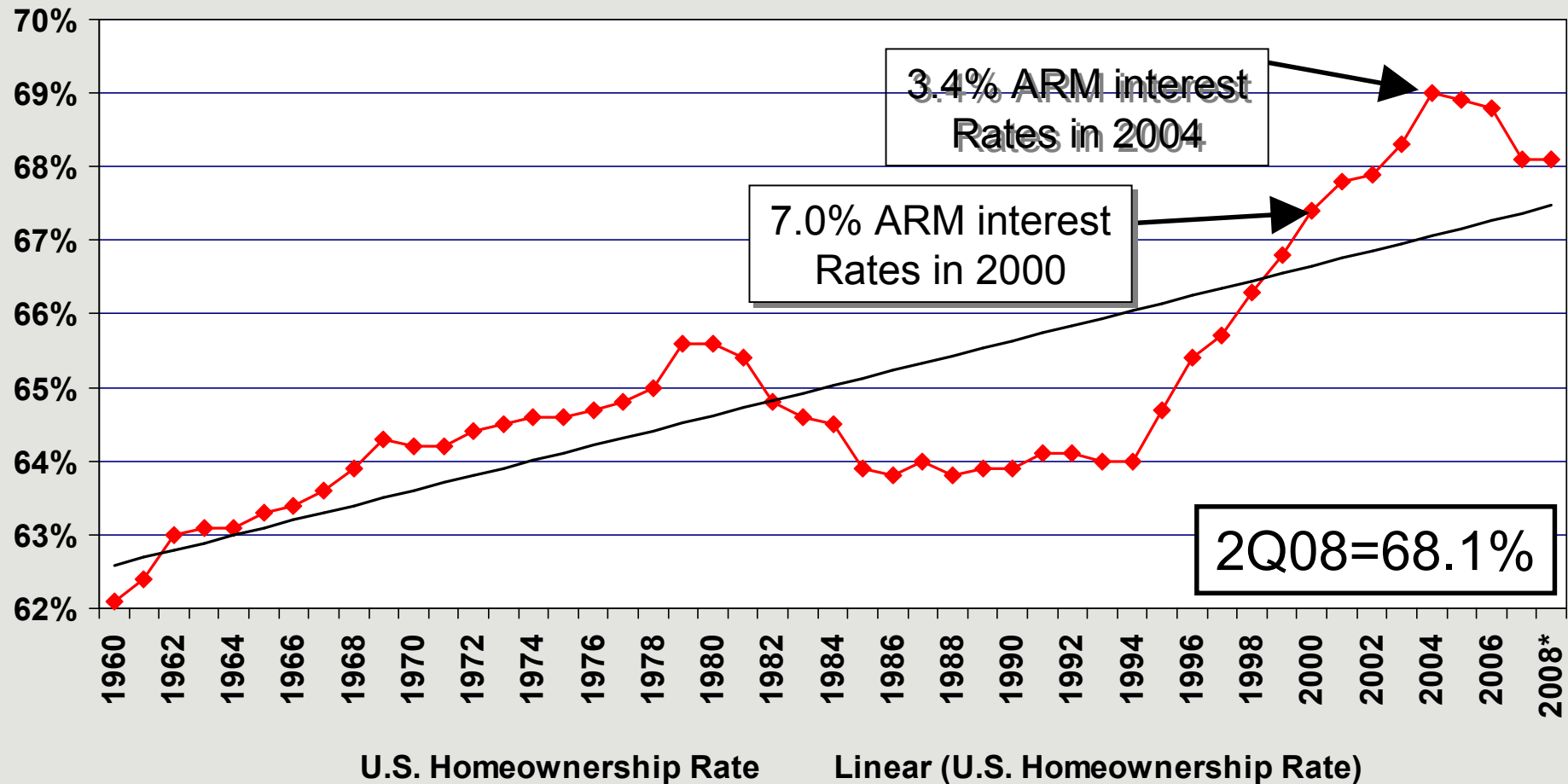
Source: U.S. Census Bureau; Sullivan Group

National Foreclosures Still High



Source: RealtyTrac, released October 23, 2008; Sullivan Group

There are about 2 million more homeowners today than long-term trends would indicate



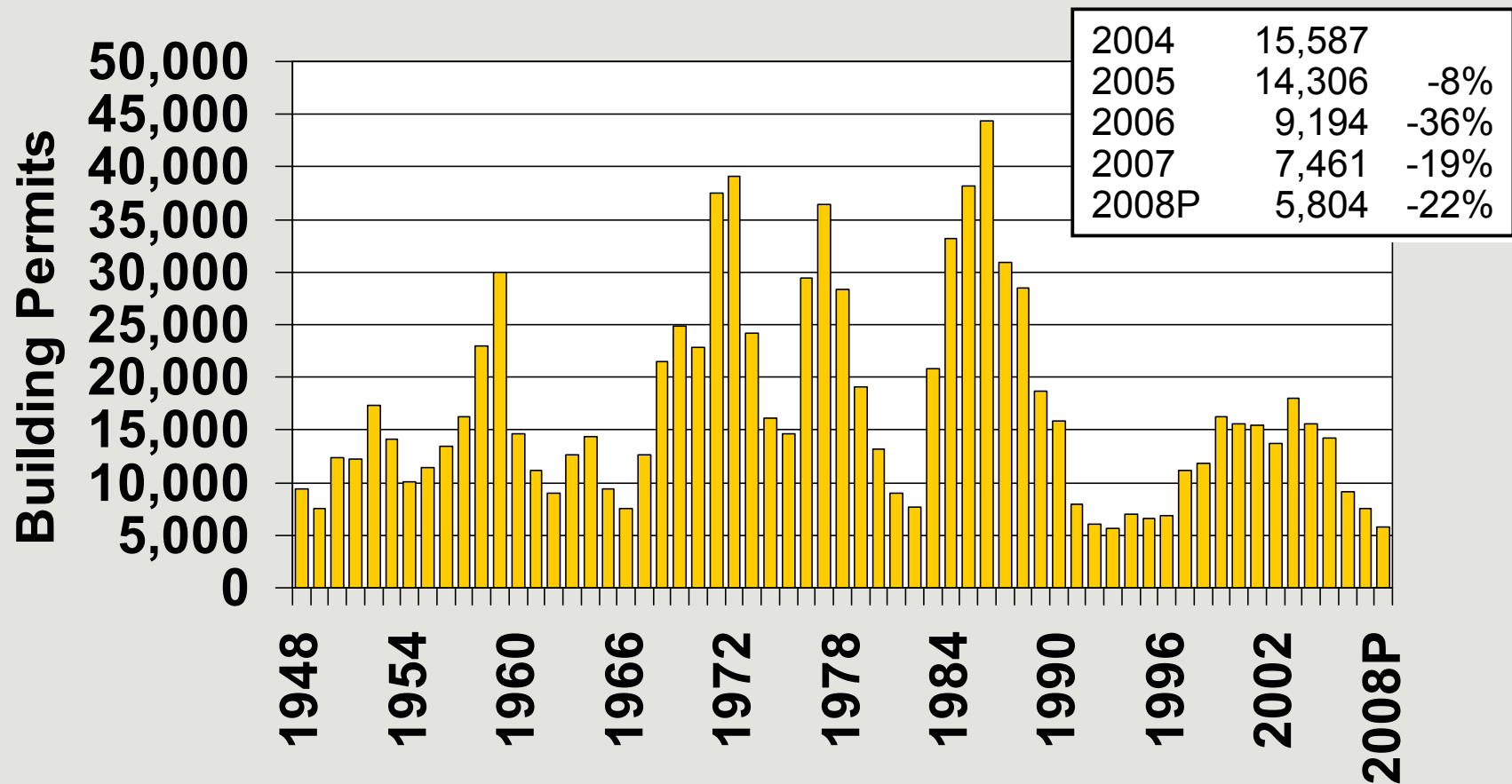
Source: Census Bureau; Sullivan Group



II. THE SAN DIEGO MARKET

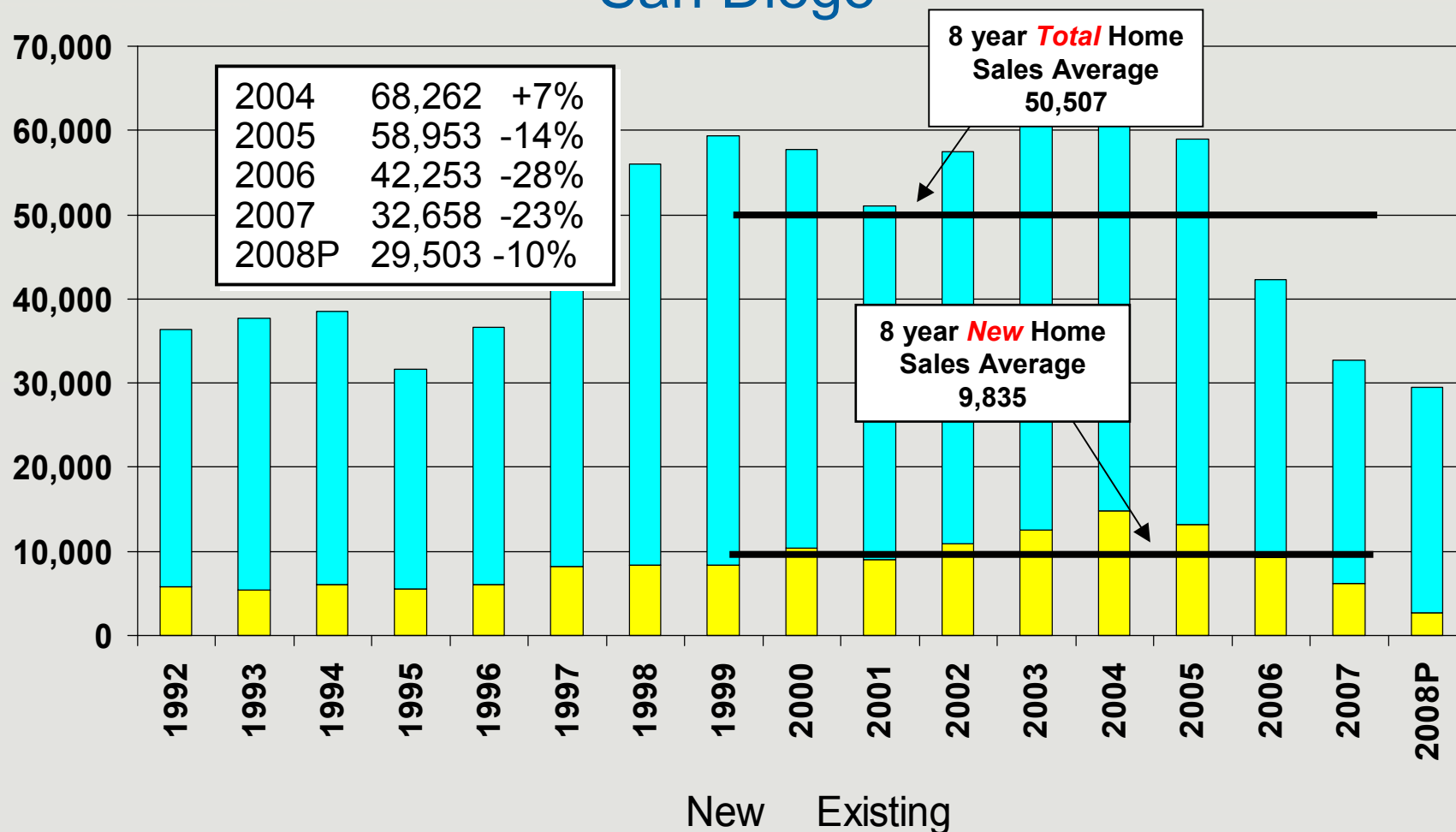


San Diego's Residential Permits are at the Lowest Level Since WWII



Source: SOCDS; Sullivan Group Real Estate Advisors

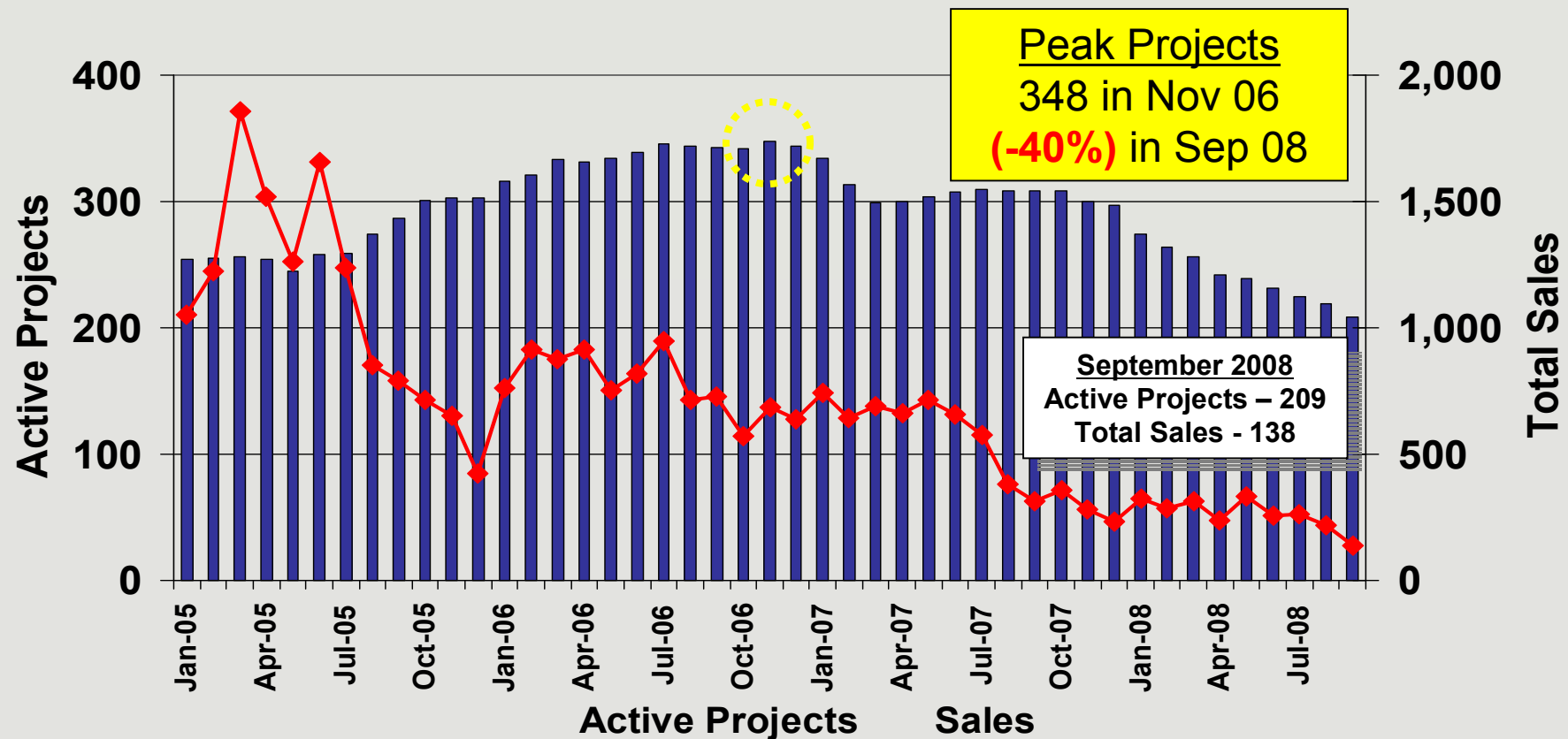
Total New and Existing Home Sales Back to '95 Levels San Diego



Source: Dataquick; Hanley Wood; Sullivan Group Real Estate Advisors

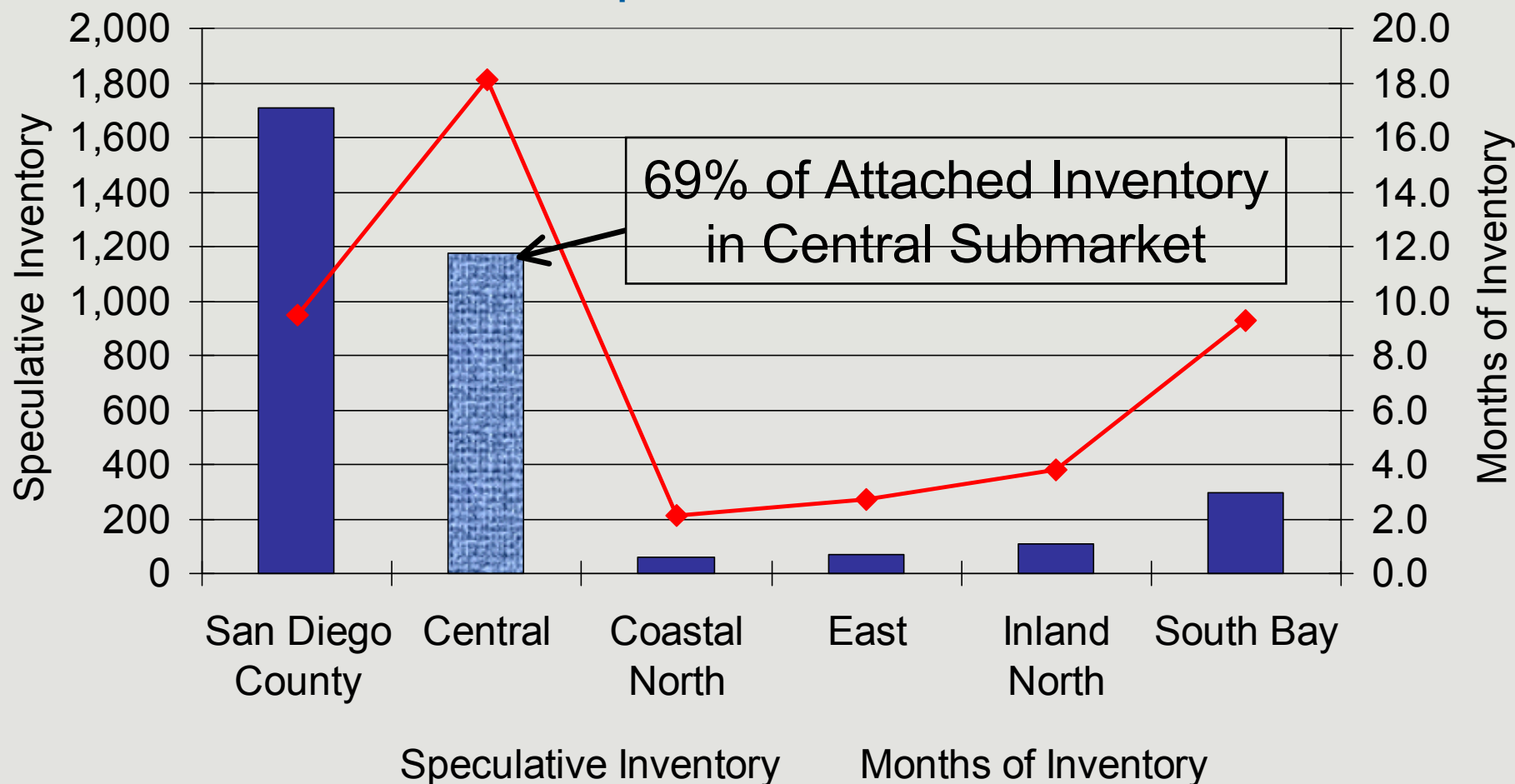
Active Projects Have Declined 40% in the Past 24 Months

San Diego: Jan 2005 to Sept 2008



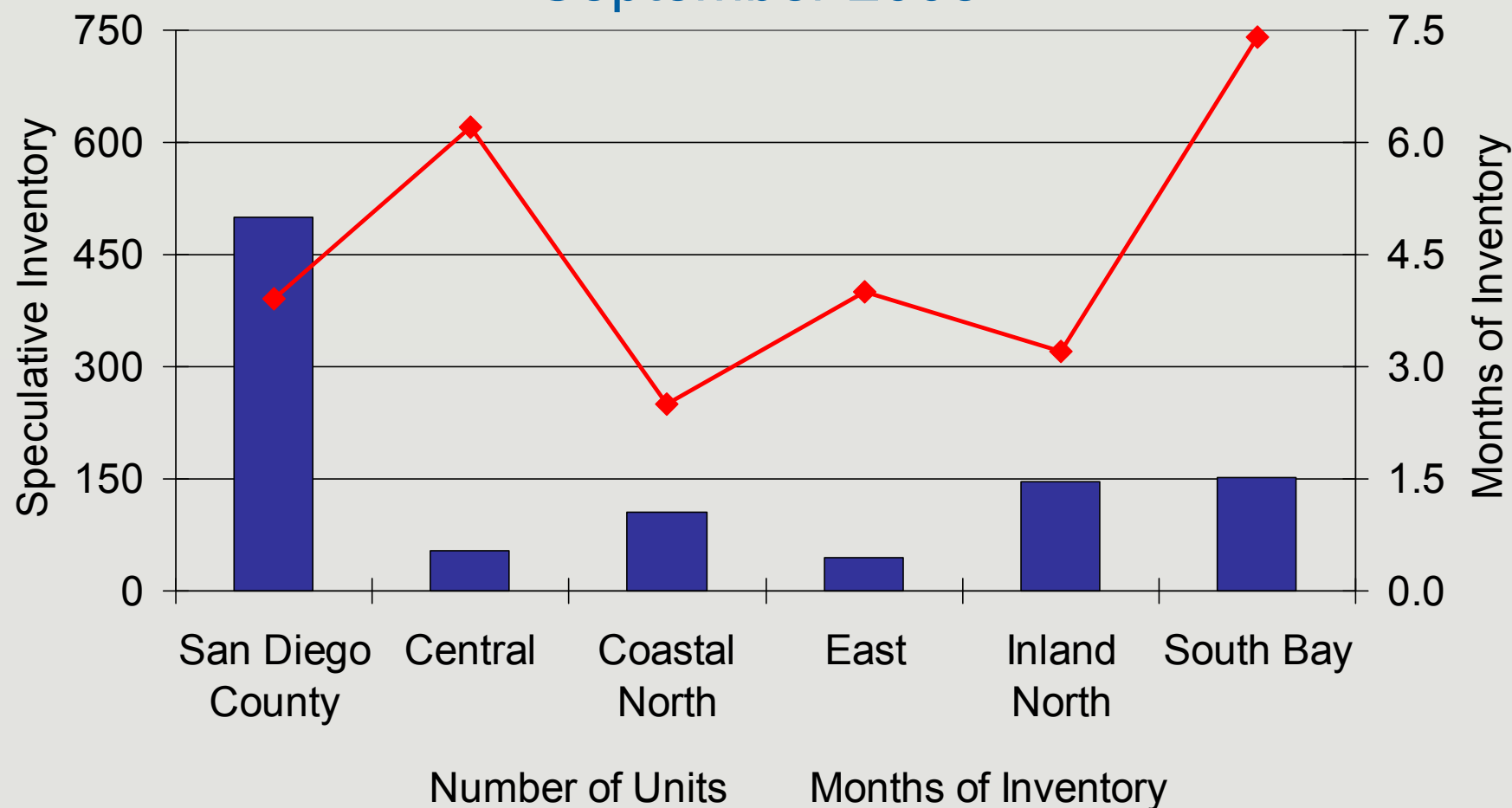
Source: Hanley Wood; Sullivan Group Real Estate Advisors

Most New Attached Inventory in Central Submarket September 2008



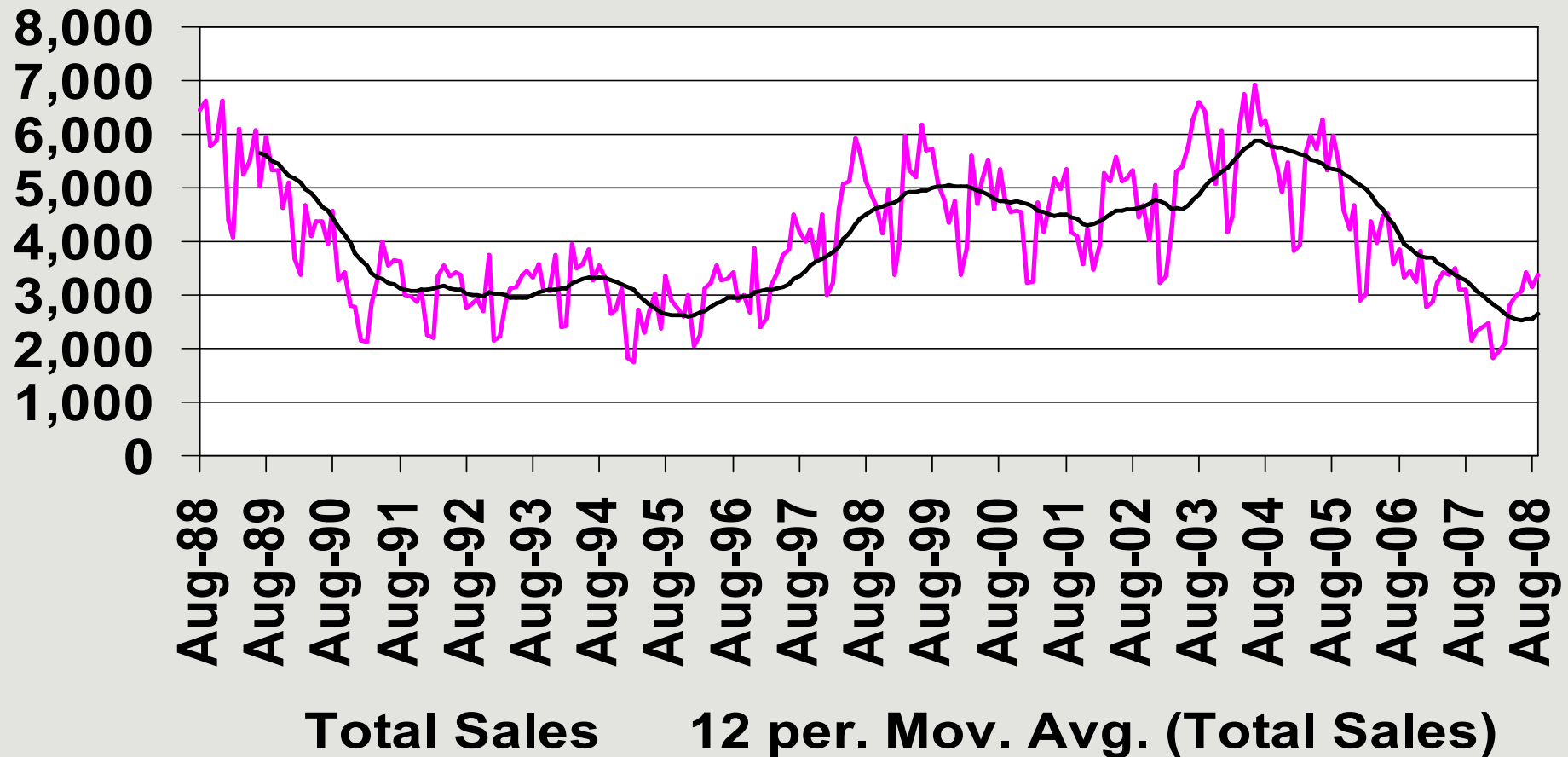
Source: Hanley Wood; Sullivan Group Real Estate Advisors

New Detached Inventory is Generally Low September 2008



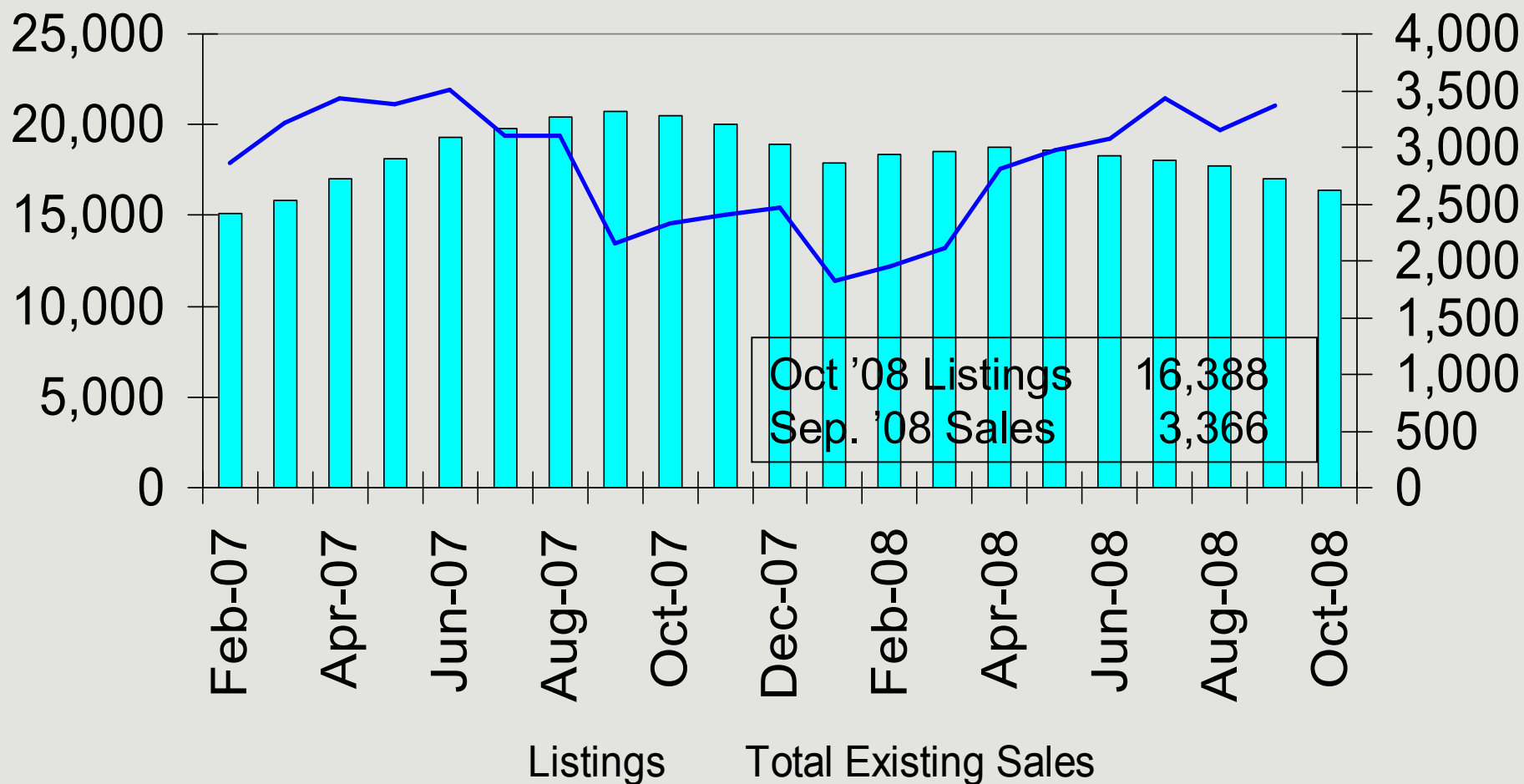
Source: Hanley Wood; Sullivan Group Real Estate Advisors

Total Existing Sales Volume Has Been Down For Over Four Years in San Diego



Source: Dataquick; Sullivan Group Real Estate Advisors

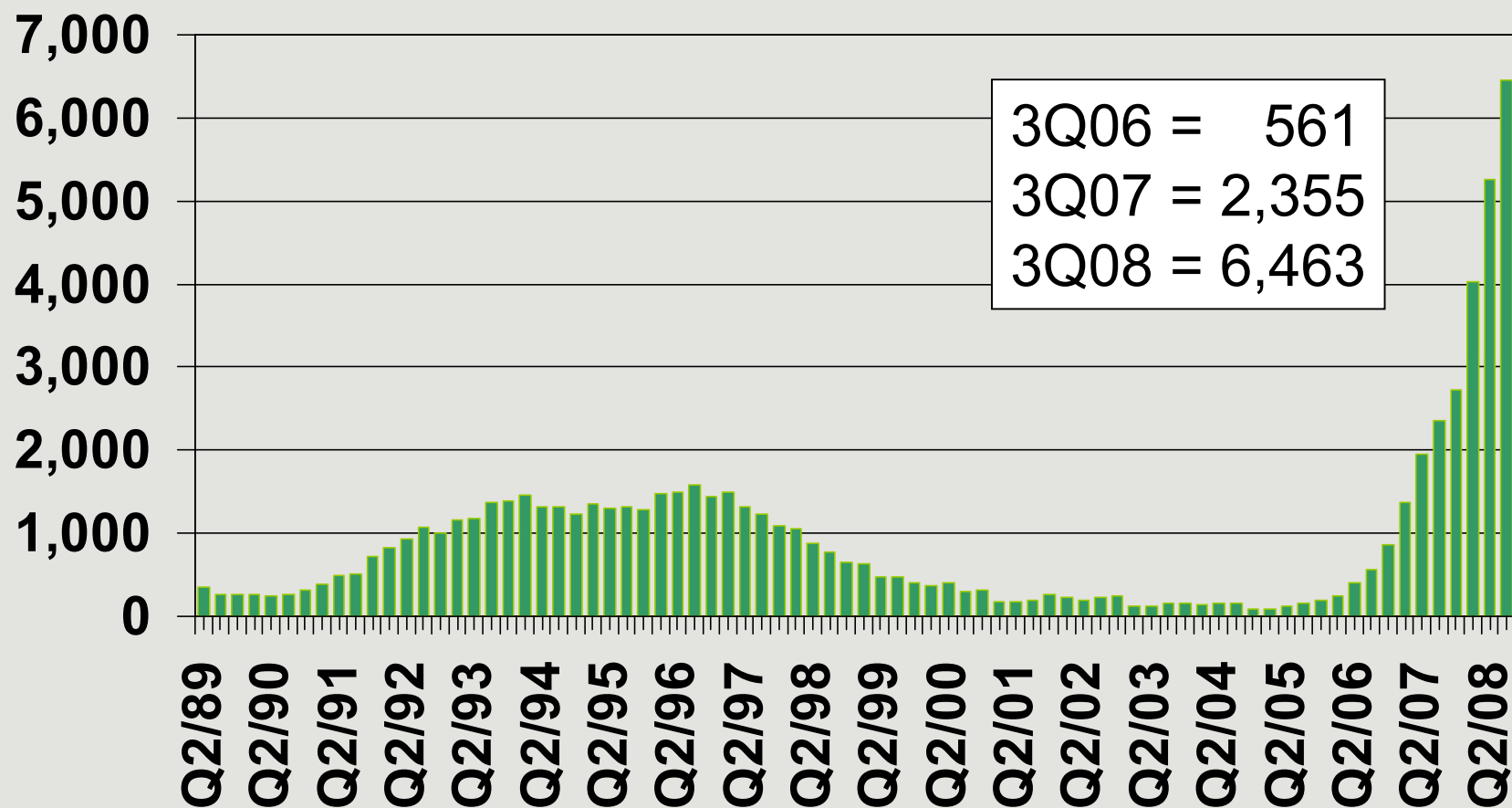
There is a 4.9 Month Supply of Resale Units



4.9 months of supply is based on the July, Aug, Sep 2008 average monthly sales.

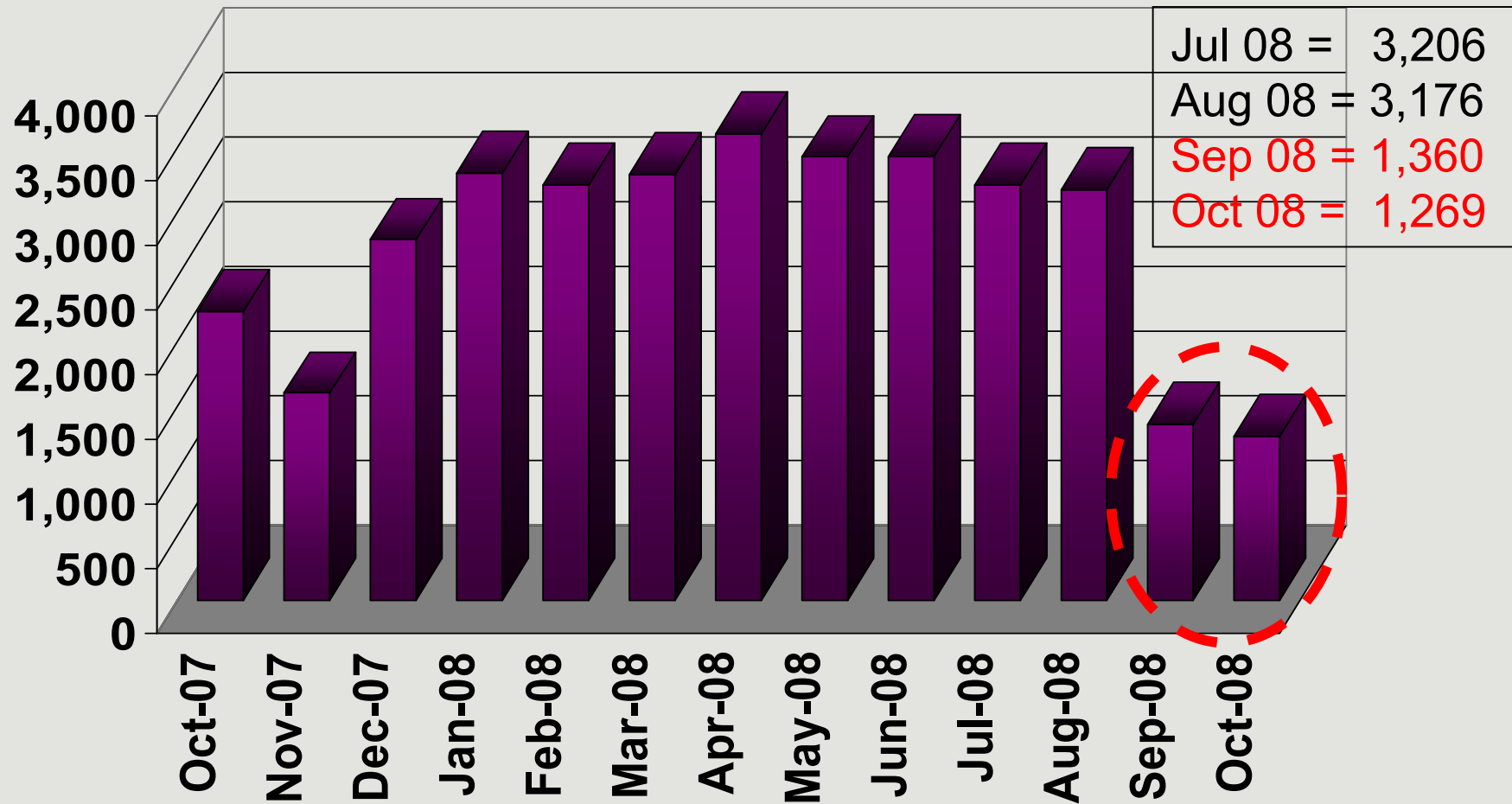
Source: Zip Realty; Dataquick; Sullivan Group Real Estate Advisors

Foreclosures Have Jumped Sharply in San Diego County



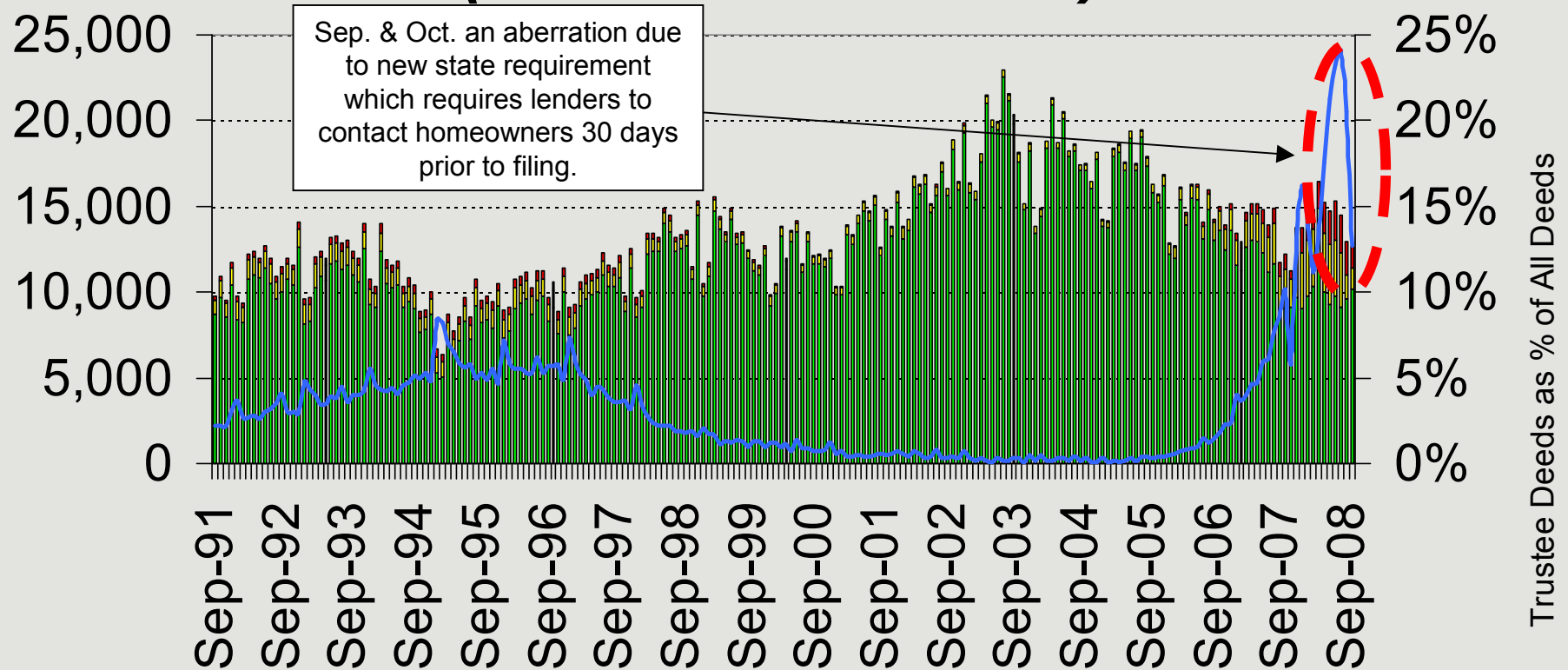
Source: Real Estate Research Council; CAR; Sullivan Group Real Estate Advisors

Notices of Default in San Diego County



Source: InnoVest Resource Mgmt; Sullivan Group Real Estate Advisors

A Growing Percent of Overall Transactions (Oct. '08 = 12.7%)



■ All Deeds
 ■ Notices of Default
 ■ Trustee's Deed
 — TD % of all Deeds

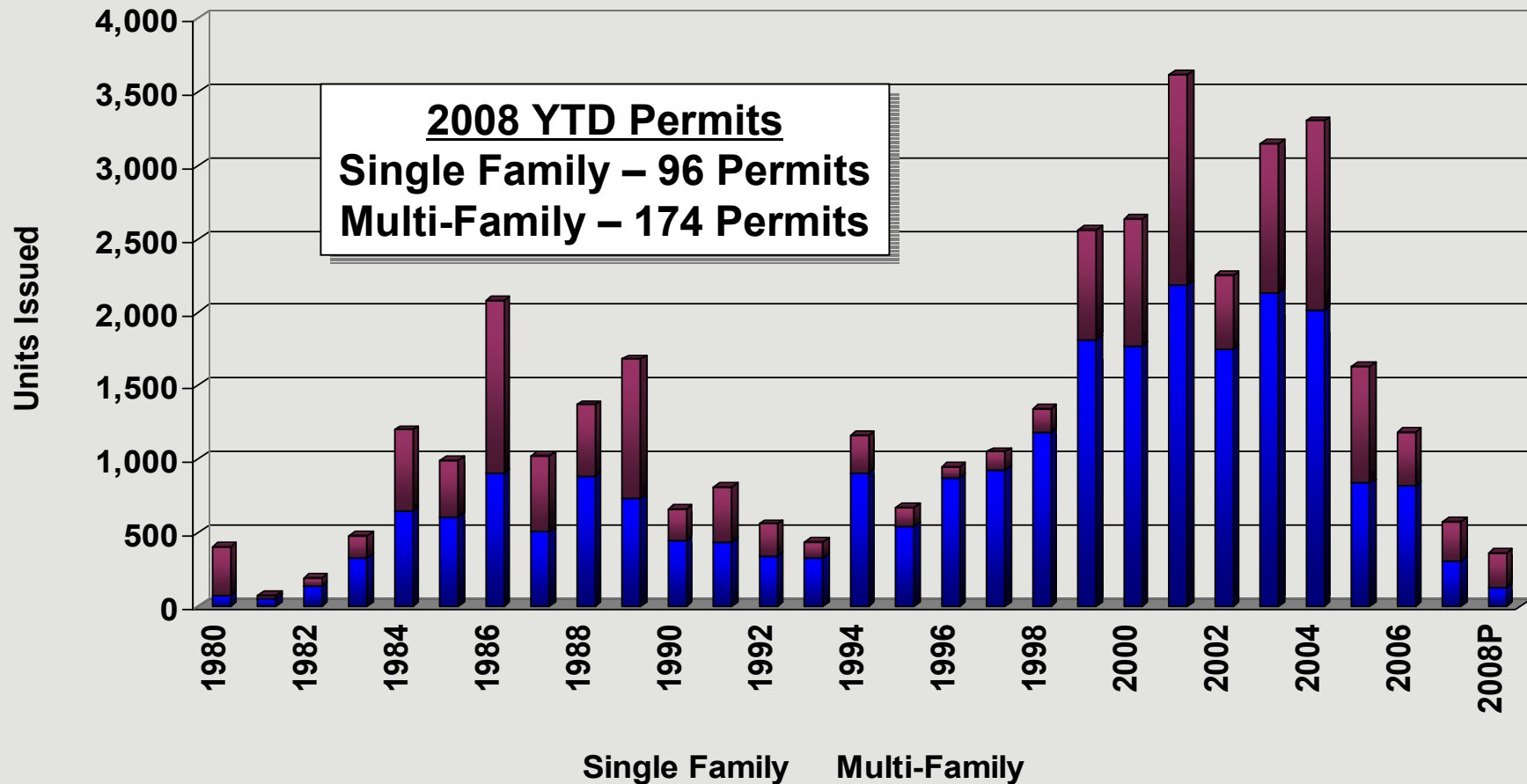
Source: InnoVest Resource Mgmt; Sullivan Group Real Estate Advisors

III. THE SOUTH COUNTY MARKET



Residential Building Permits

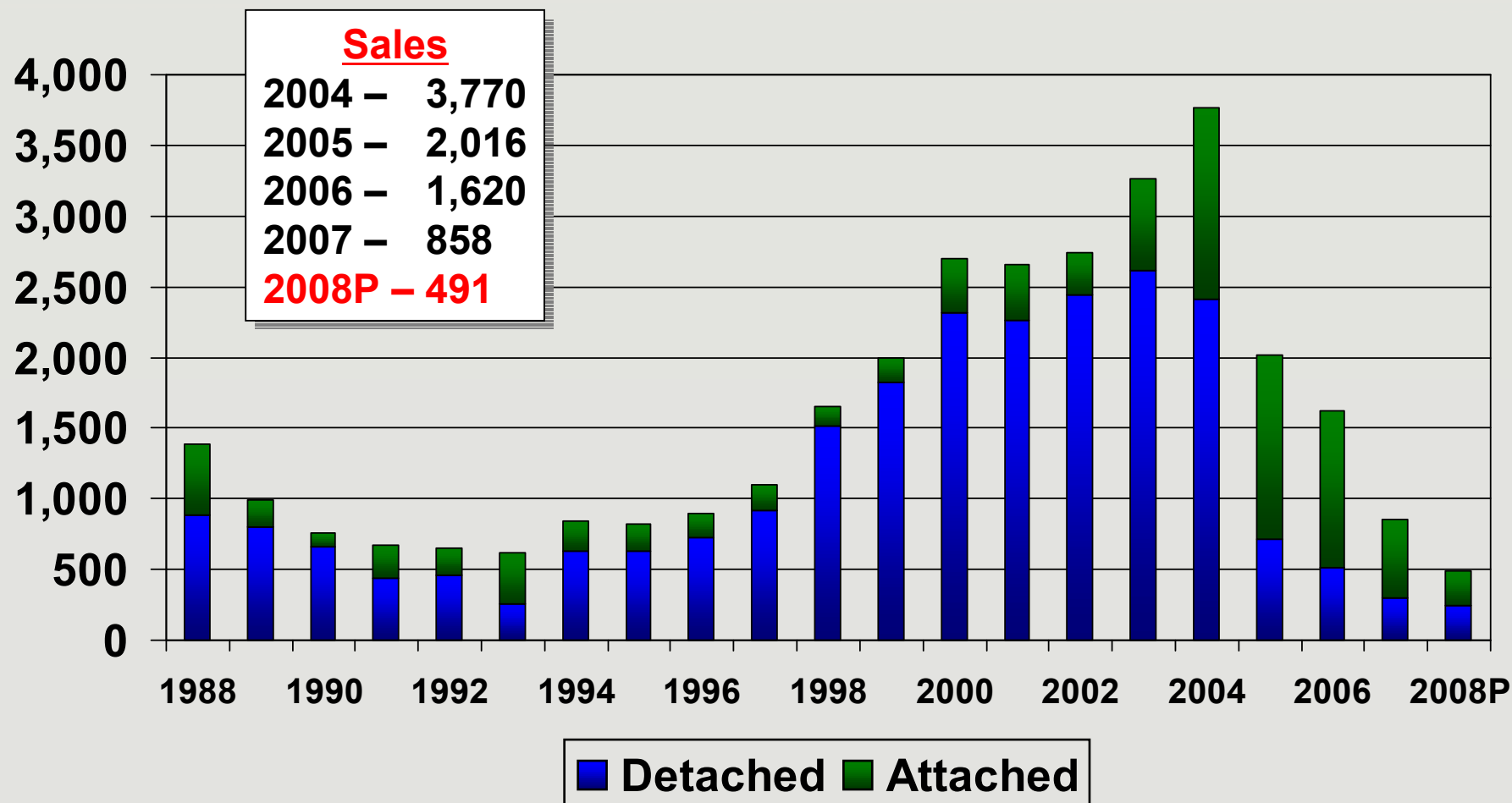
Chula Vista, CA



2008P is annualized through September.

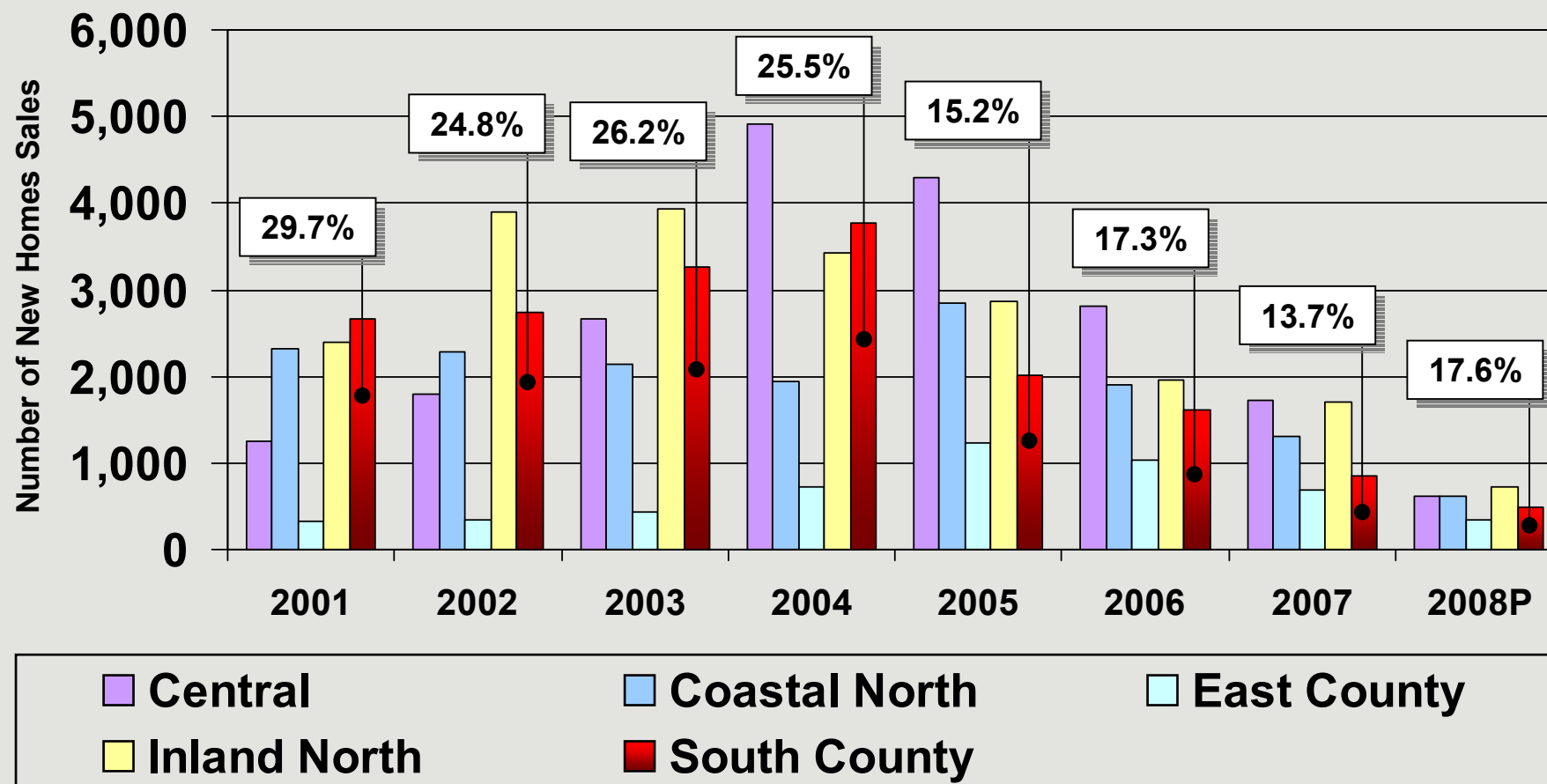
Source: Bureau of the Census; Sullivan Group

South County New Home Sales



2008P is annualized through September.
Source: Hanley Wood; Sullivan Group

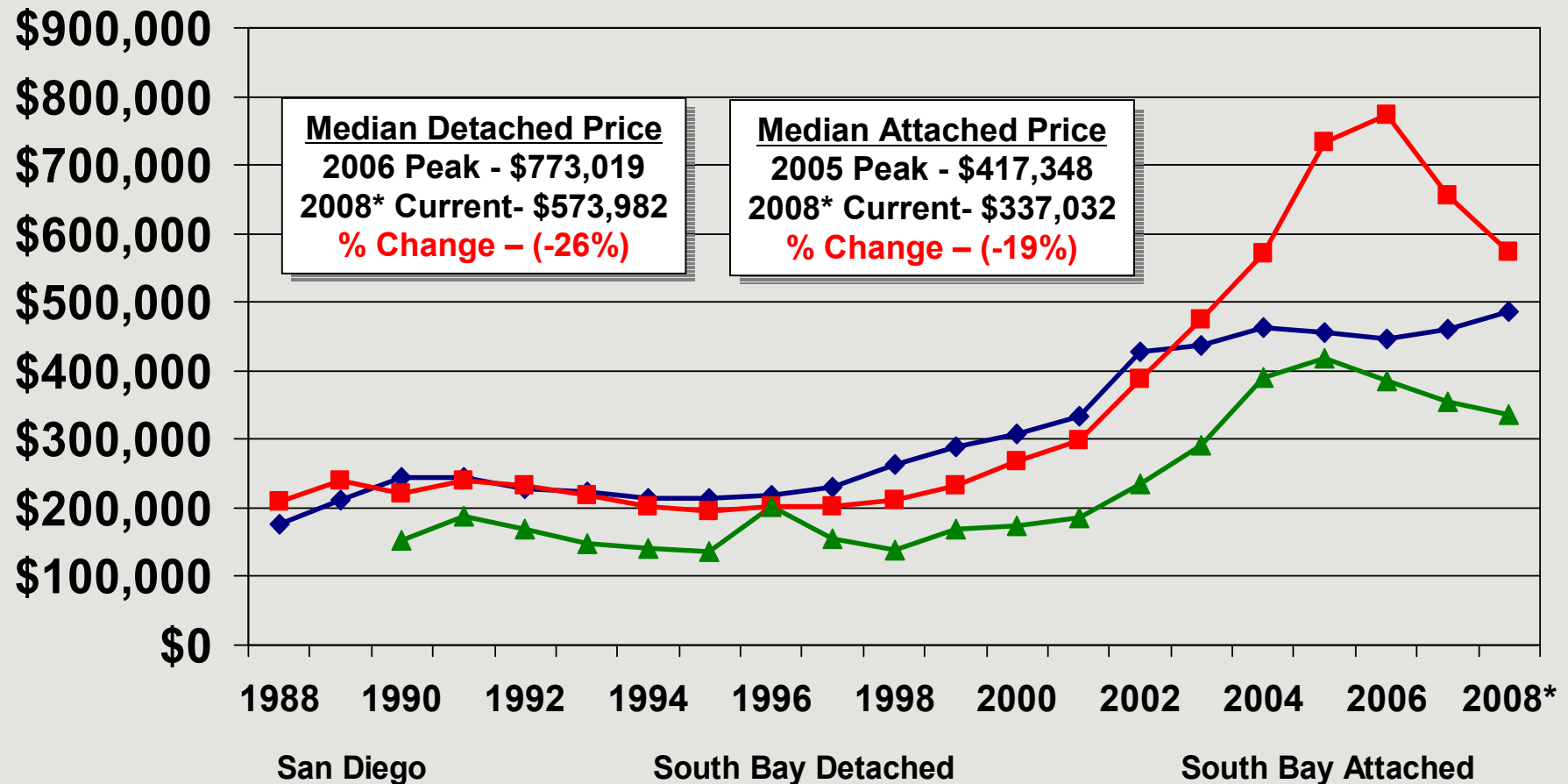
South County's Share of New Home Sales Has Decreased



2008P is annualized through September.

Source: Hanley Wood; Sullivan Group

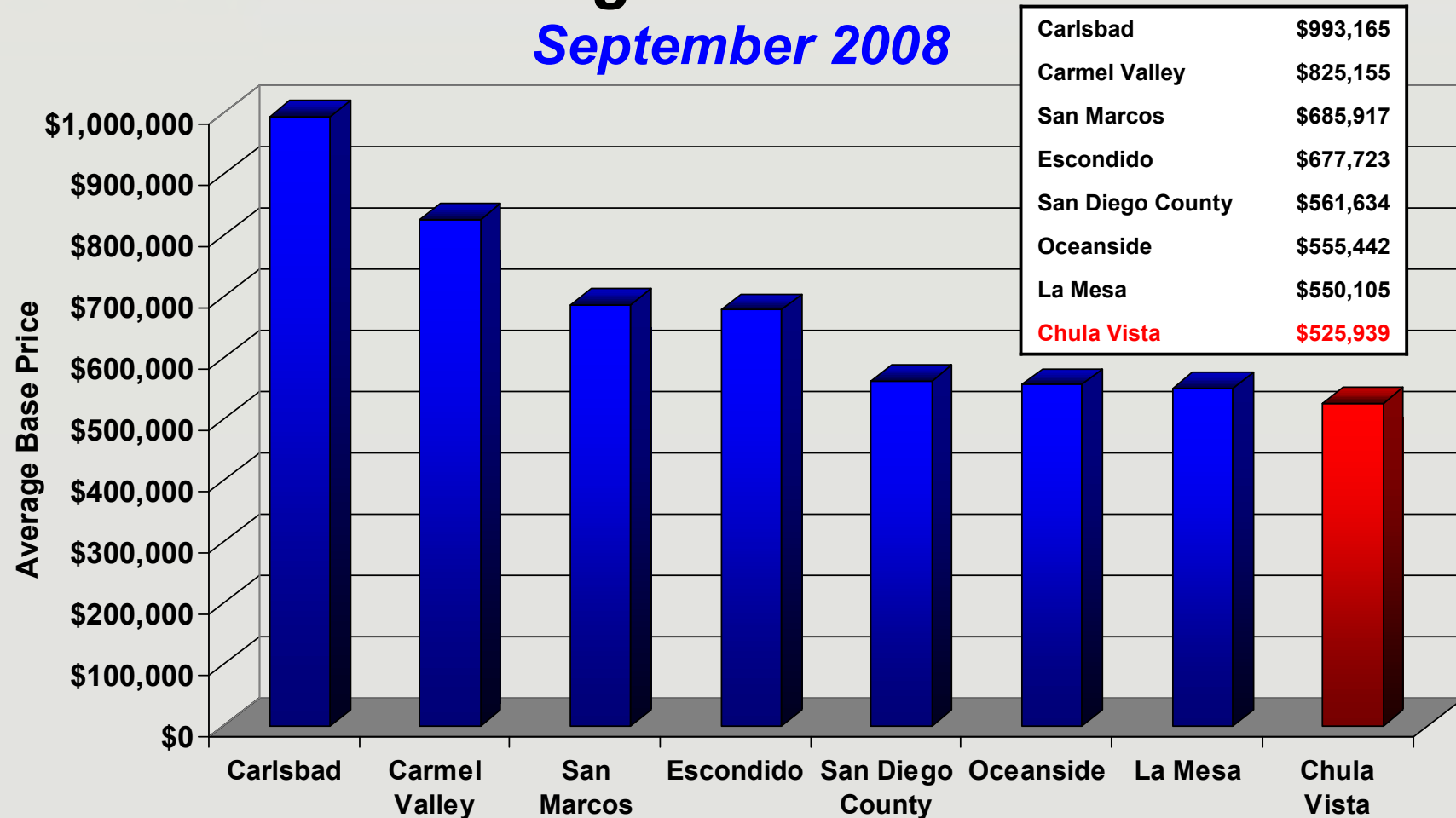
South Bay's Median Home Prices Dropping



2008* is averaged through through September.

Source: Hanley Wood; Sullivan Group

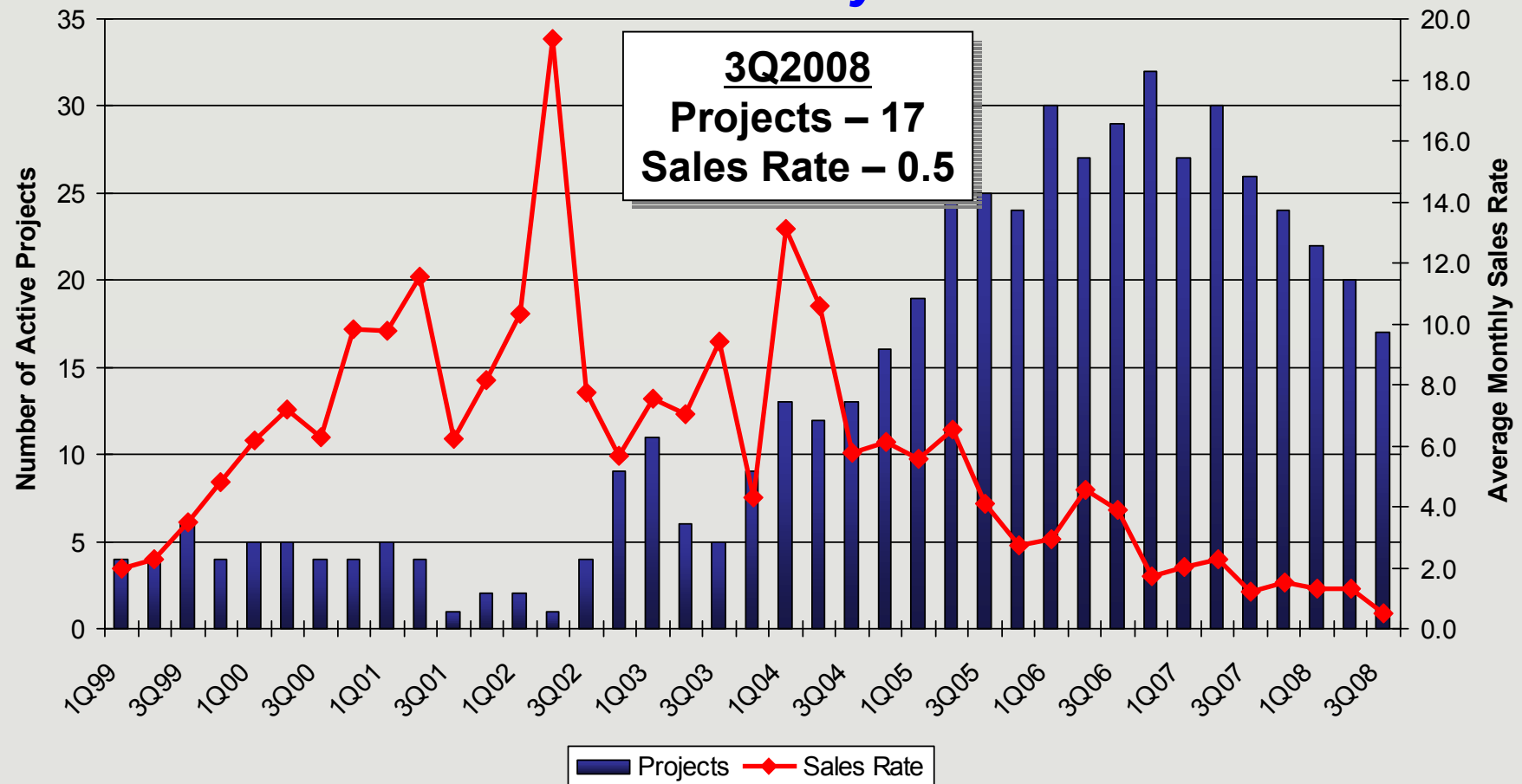
Average Base Prices *September 2008*



*September 2008

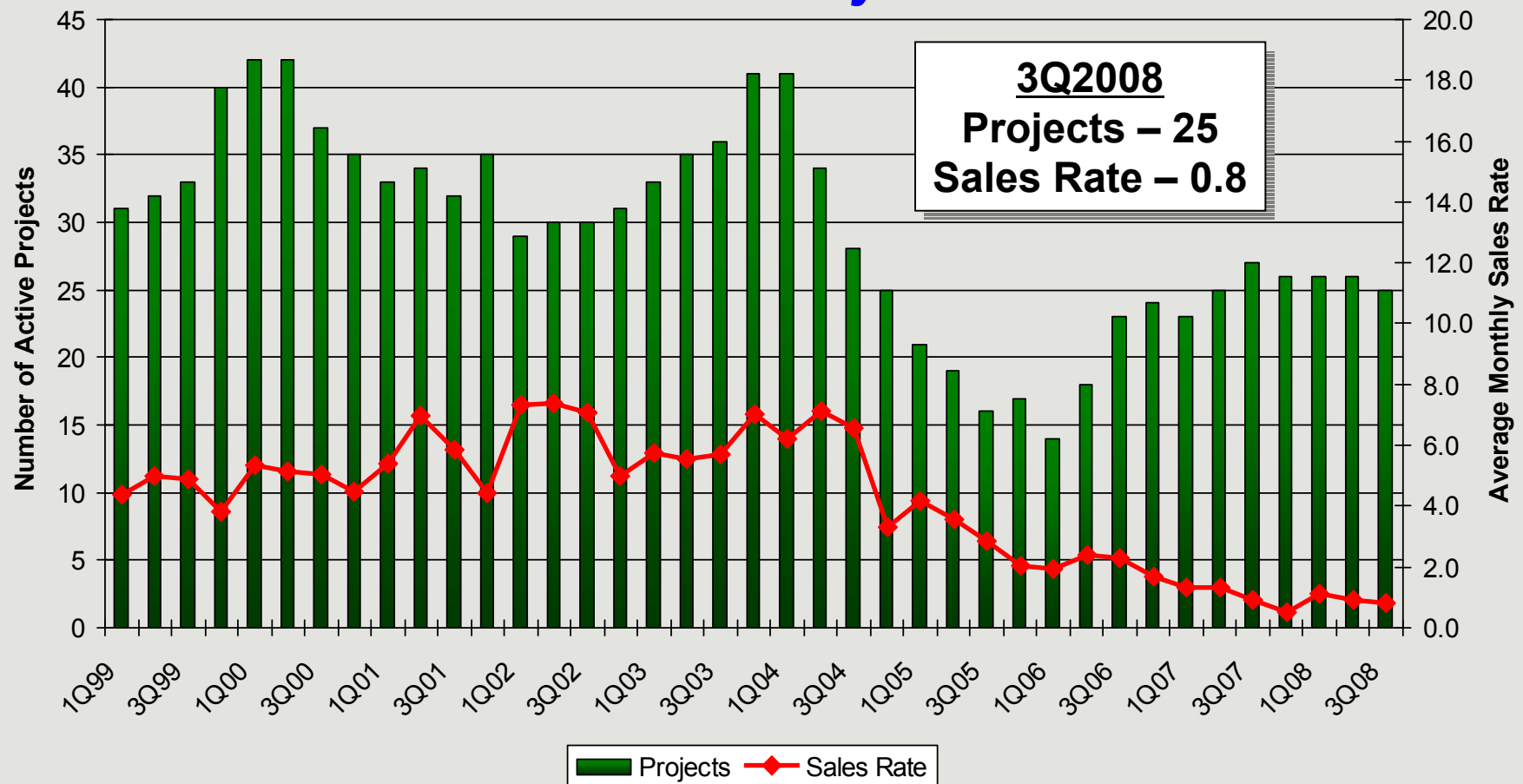
Source: Hanley Wood; Sullivan Group

Attached Projects and Sales Rate South Bay



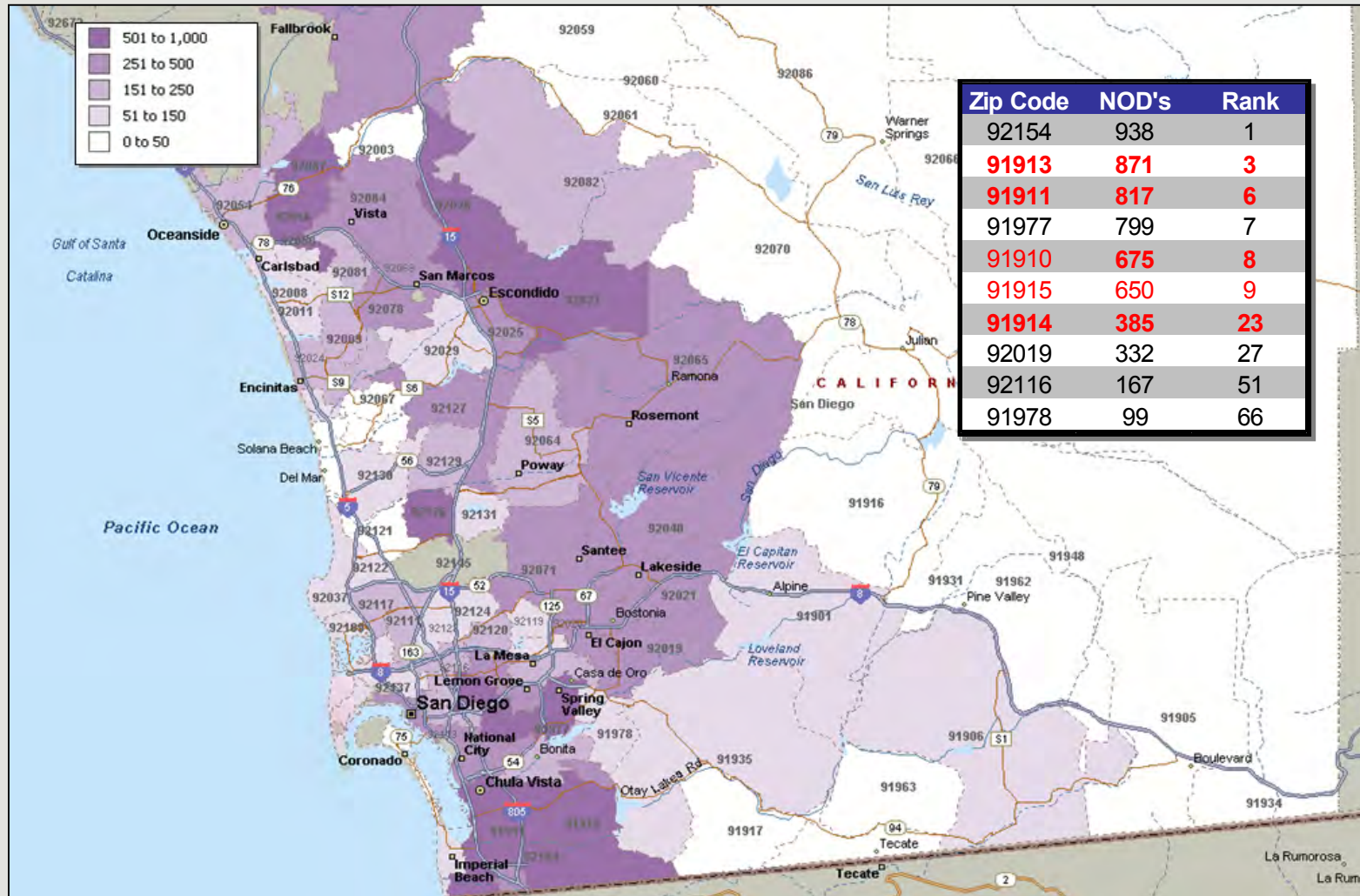
Source: Hanley Wood; Sullivan Group

Detached Projects and Sales Rate South Bay



Source: Hanley Wood; Sullivan Group

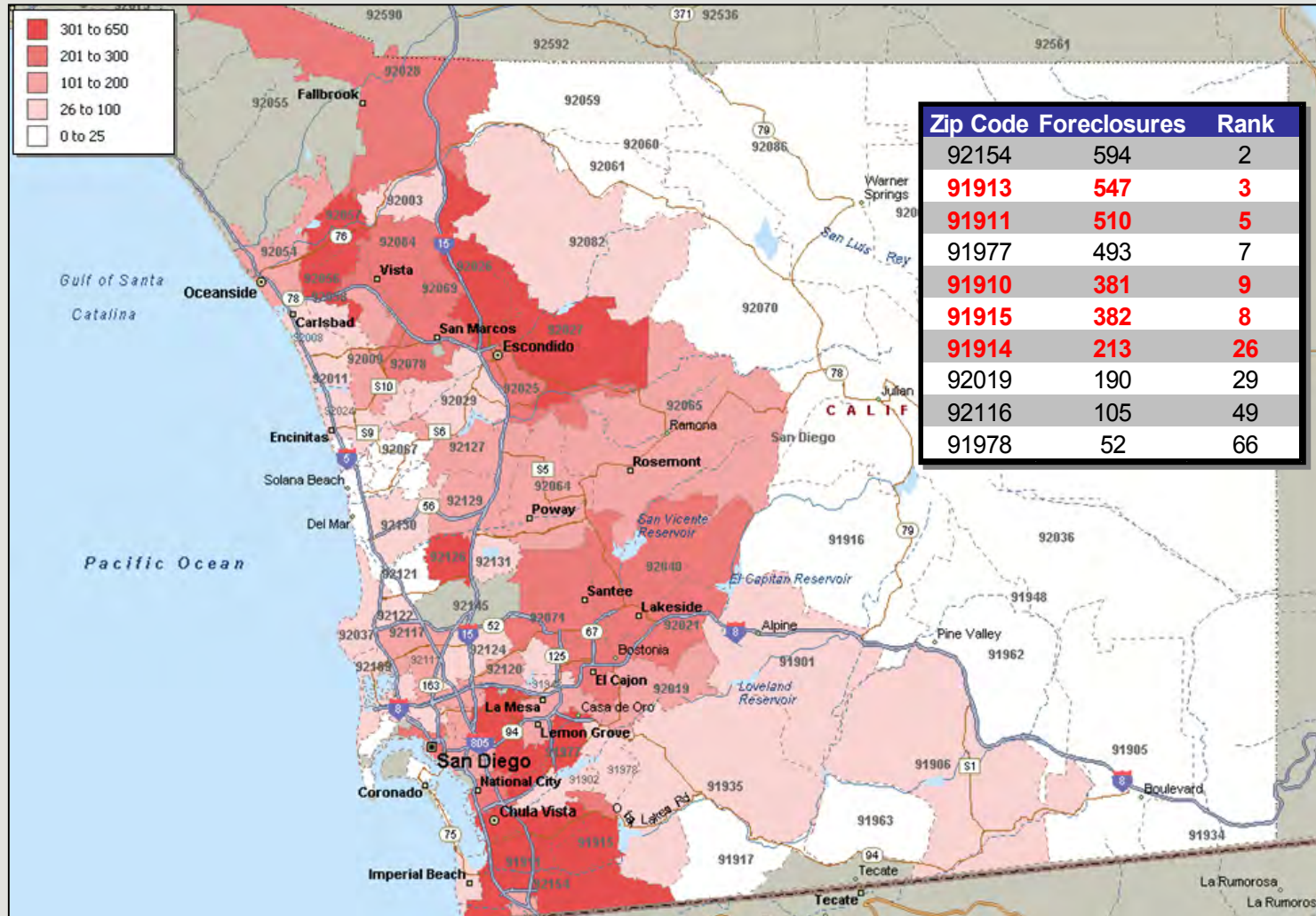
San Diego Notices of Default



Note: Zip codes ranked out of 100 zips.

Source: DataQuick; MapPoint; Sullivan Group

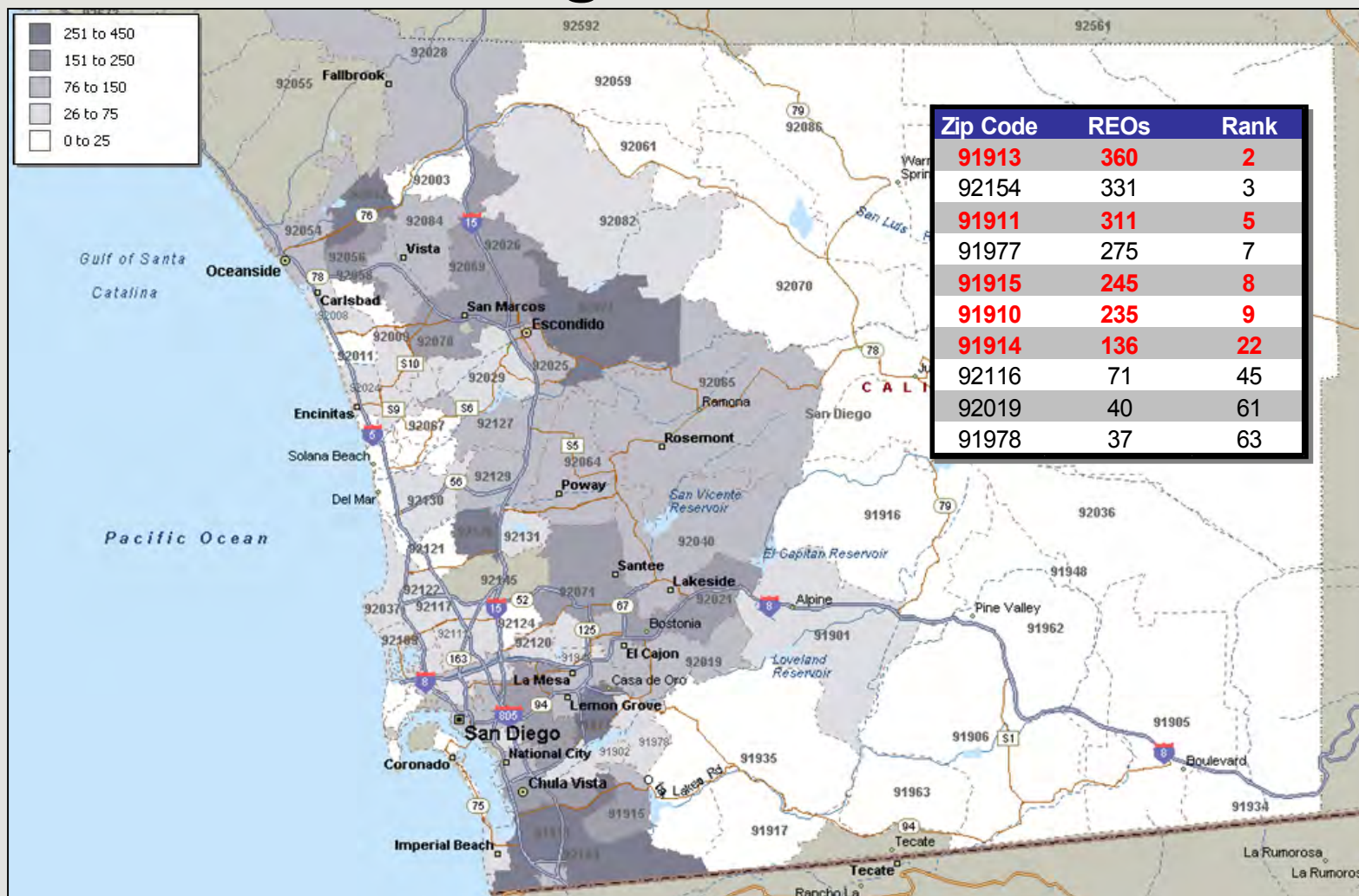
San Diego Foreclosures



Note: Zip codes ranked out of 100 zips.

Source: DataQuick; MapPoint; Sullivan Group

San Diego REO Resales

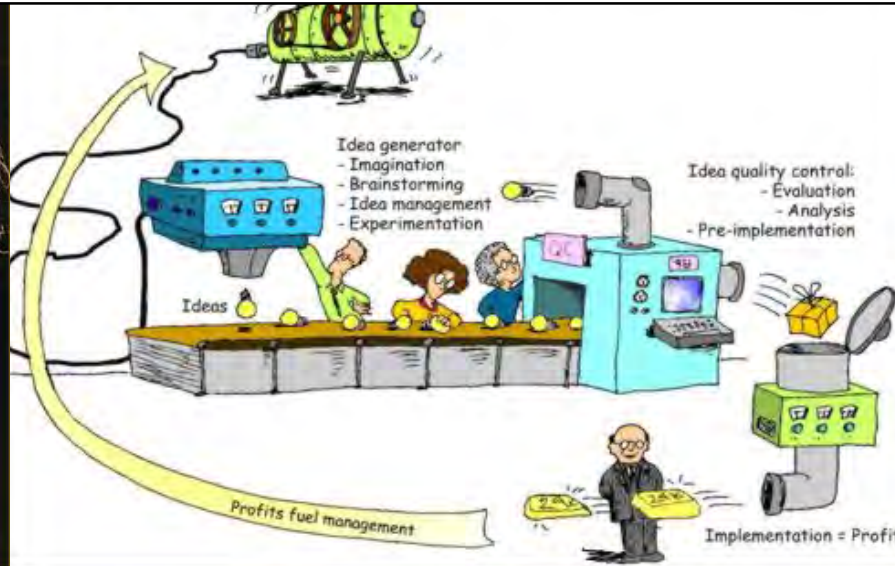
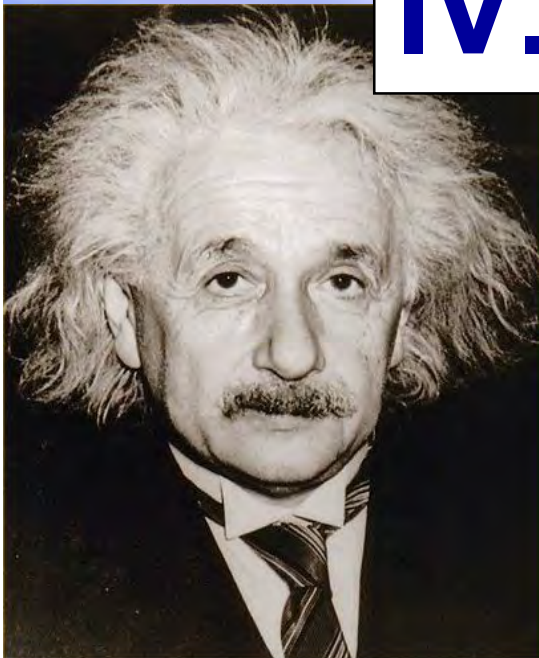


Note: Zip codes ranked out of 100 zip.

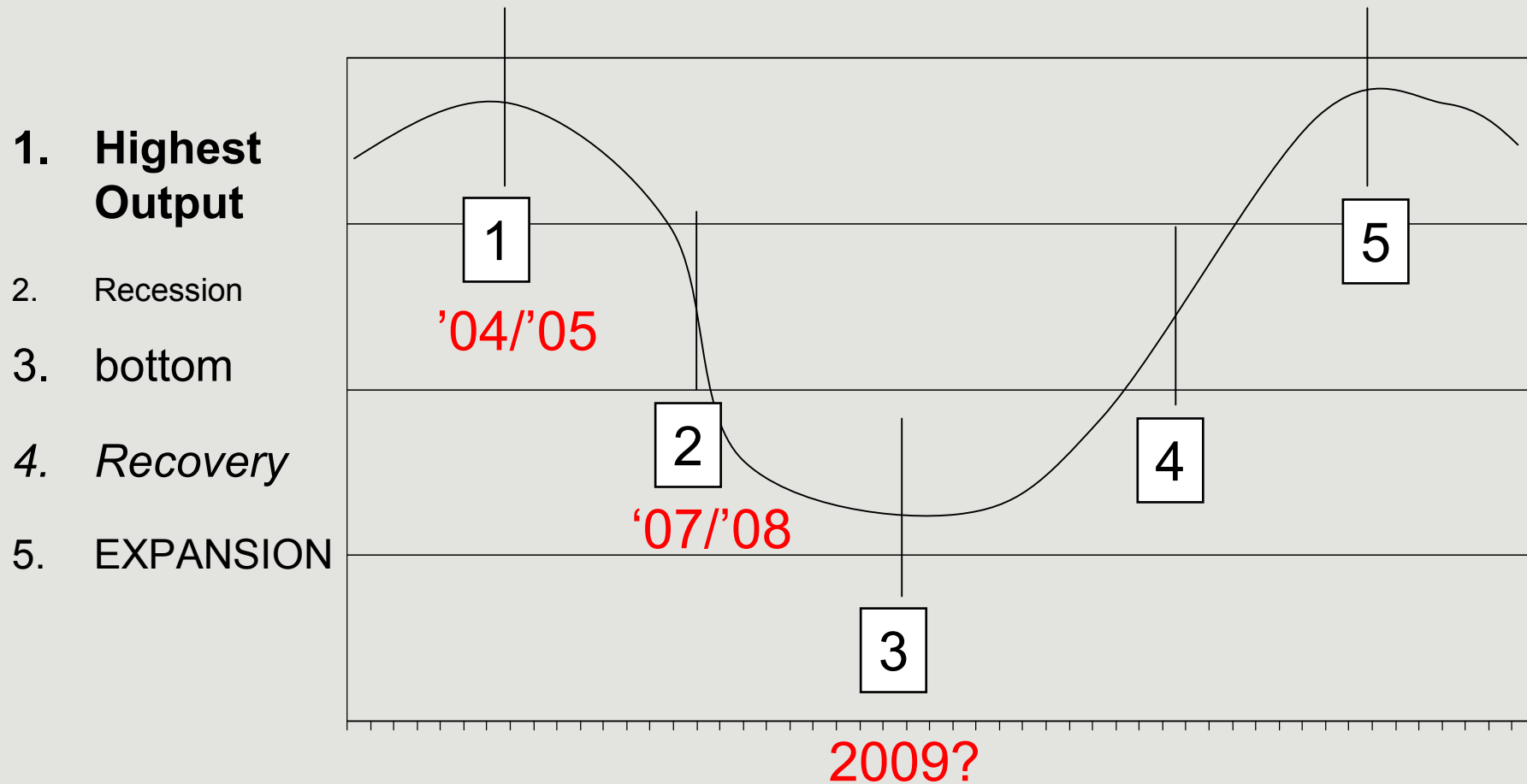
Source: DataQuick; MapPoint; Sullivan Group



IV. CONCLUSIONS



Housing Cycles Have 5 Parts



Source: Sullivan Group Real Estate Advisors

Challenges:

- ✓ Inventory
- ✓ Price Erosion
- ✓ Debt Load
- ✓ Job Losses
- ✓ Liquidity
- ✓ Low Confidence
- ✓ Low Interest Rate

There is no independent variable.

Evolving Product



Traditional 'A'
1,083 sq. ft.

1,083 sf

Traditional 'B'
1,383 sq. ft.

1,383 sf

Traditional 'C'
2,171 sq. ft.

2,171 sf

Rx for Stability and Recovery

- **The focus:** jobs and *foreclosures*
- **Inflation** worries soften
 - Lower oil costs
 - Lower interest rates
- **Banks** take an active role in repricing
- **Confidence Upswing?**
 - Unprecedented national and international policy cooperation
 - New administration
 - New year
- **Wild Card:** The Commercial Market

Source: Sullivan Group

We still have pain ahead but Why is there opportunity in Southern California?

- The classic **fundamentals** are still in place:
 - Weather
 - Quality of Life
 - Improved affordability
- Supply is **being consumed** (and we really do have a “limited” lot supply)
- Land is being looked at as a **liability** again.....
- There are varying levels of “**reboundability**”.
- REO Homes selling ***below replacement cost in So Cal***

Source: Sullivan Group

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